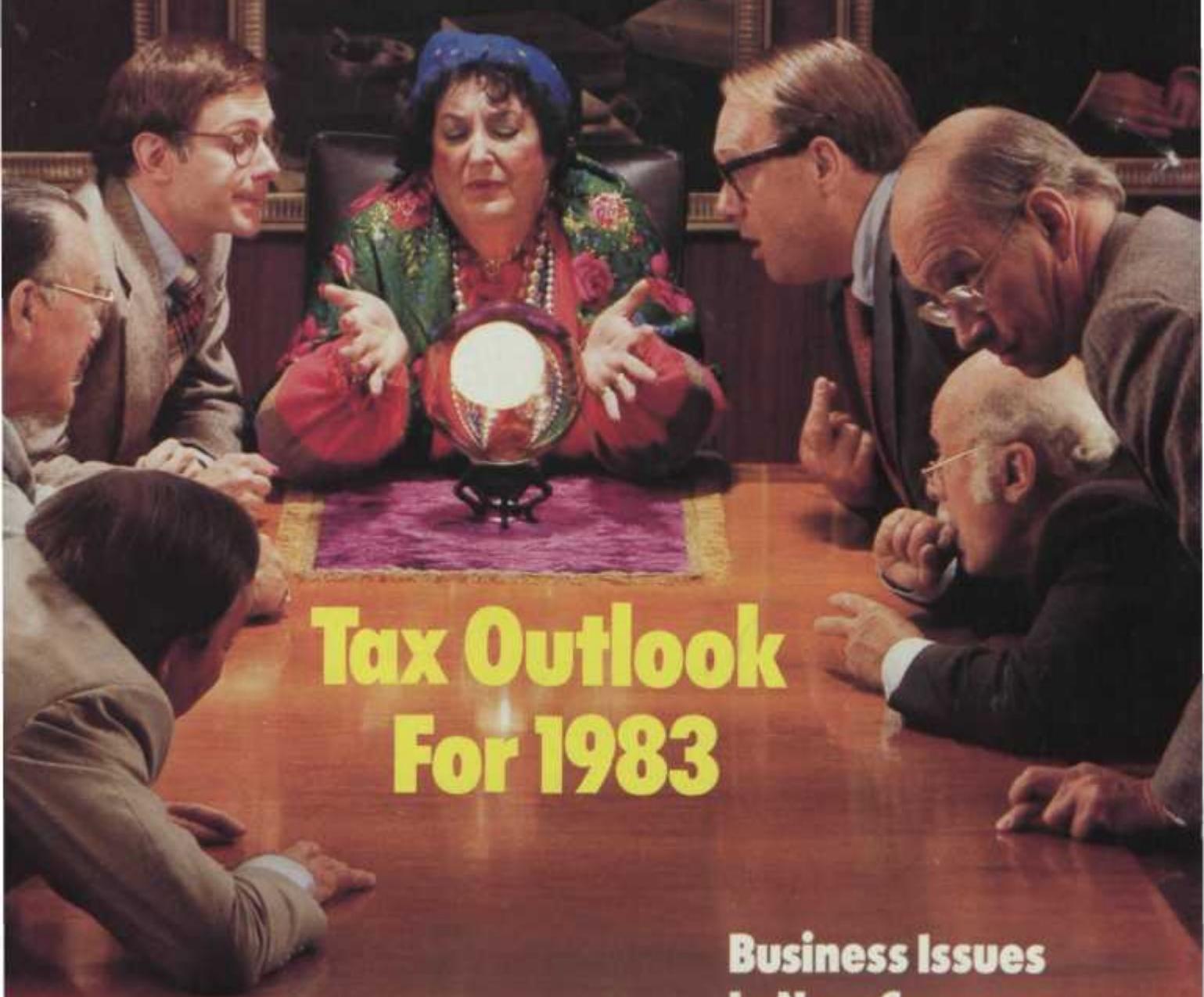


Nation's Business

The Business Advocate Magazine

December 1982

\$2.25



Tax Outlook For 1983

**Business Issues
In New Congress**

**High Court Cases
That Affect You**

**Benefit Bonanza
For Employes**

12



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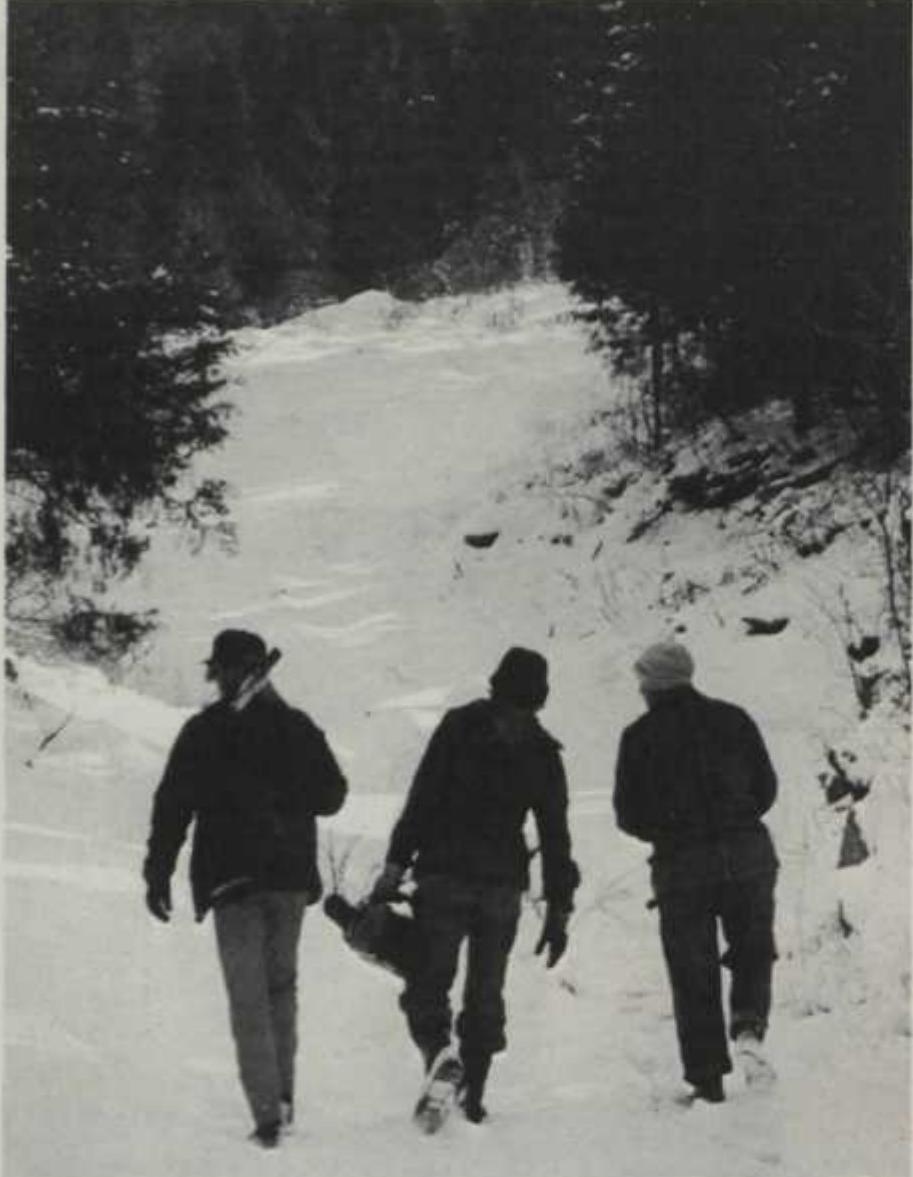


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**Tax Outlook 20**

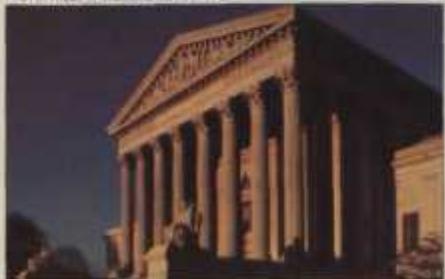
Political developments and looming deficits point to more tax increases on the heels of this year's.

PHOTO: DENNIS BRACK—BLACK STAR

**What's Ahead in Congress 24**

The election made it a new ball game on Capitol Hill, and the score will have long-term effects on business.

PHOTO: WILLIAM S. WEEMS—WOODFIN CAMP

**High Court Business Cases 38**

Women's pensions, bankruptcy, pricing, job bias suits, business mailing—all figure in the Supreme Court calendar.

PHOTO: PHILIP JIM BAILEY—PICTURE GROUP

**Product Liability Mess 74**

A threat to firms ranging from giant corporations to a small maker of football gear may finally be reduced.

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Vol. 70, No. 12**Rules Burden Small Firms 30**

Rules that apply to companies of all sizes saddle small firms with needless accounting costs, a CPA says. She is trying to get some changes made.

Who Sets Accounting Rules? 32

A look at a private group whose word is law—the seven-member Financial Accounting Standards Board—and at what it is up to these days.

Office Computer Boom 34

"Staggering" growth is forecast for sales of office computers. Desktop units are easier to use and easier to pay for—and they can really pay off.

Private Firms Losing Out 45

Contracting out to private firms can save Washington billions, but congressional skeptics have reduced the practice and hope to reduce it more.

How To Motivate Employees 48

Here is a primer—on hiring, on promoting, on paying and on listening—for the small business that wants to improve its workers' productivity.

CEO With High Visibility 60

USAir's Edwin Colodny learned the importance of personal attention as a delivery boy. He gives it aplenty to his airline's patrons and employees.

The Breeder's Birth Pains 64

The Clinch River reactor, which is to create more nuclear fuel than it uses, has been called crucial to our energy future. But its own future is in doubt.

Fast Rise in Fast Food 67

S. Truett Cathy began with one fast-food outlet in the late 1960s. Today he presides over 255, and he has never had a closing because of poor sales.

Executive Raise Recessions 68

The 1982 managerial salary picture could have been much better, though it also could have been worse. Next year doesn't look so good, either.

Employee Benefit Bonanza 70

American employers are picking up a \$540 billion tab this year for such things as paid vacations and holidays, sick leave, insurance and pensions.

Guide to Tax Changes 72

Here is a listing of tax legislation provisions you need to know about. Enacted this year and last, they will go into effect next year.

Unlucky Proposition 13 76

The recent fate of California's famed tax-cutting law shows that eternal vigilance is the price of continued liberty from overtaxation.

Tight-Fisted Public 80

Americans are saving more, but so far that has not been translated into an increase in capital investment. The problem: Consumers are not buying.

Amateur Stargazers 81

Why make astronomy your hobby? Business people who have done so talk of beauty, of mystery, of knowledge and of an "almost indescribable serenity."

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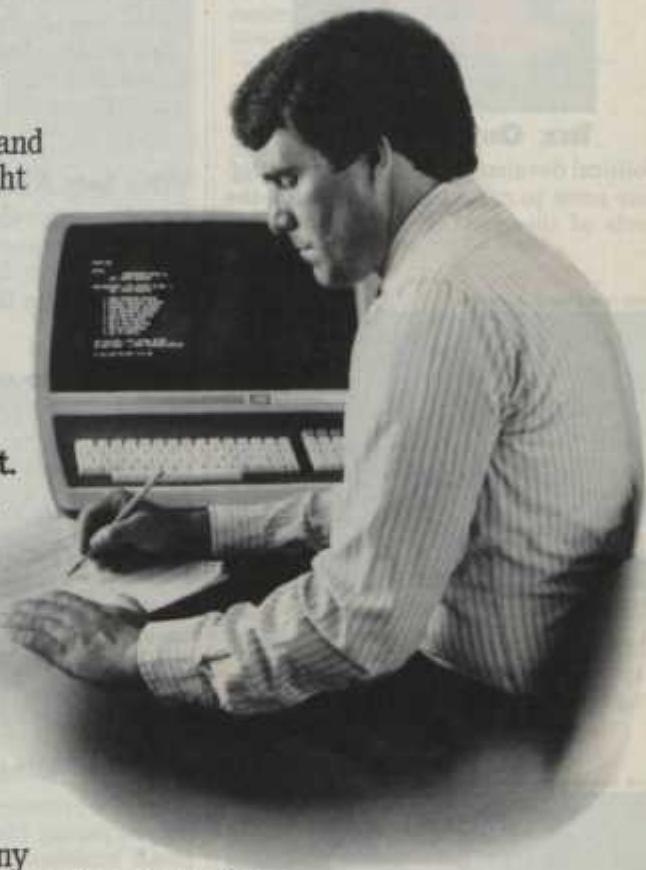
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The Tylenol Case and Business

MORE THAN SIX WEEKS have passed since the Tylenol murders were reported in Chicago. The helpless, unoffending victims have been buried; their families have begun to rebuild their lives. In Washington, the government has rushed to prepare new guidelines on the packaging of over-the-counter capsules. As I write, the murderer remains at large. The story has drifted out of the news.

Even so, the effects of this stunning affair linger on. Something of great value in our society has been lost—not irretrievably lost but temporarily lost—and all of us in business and in the media have a job to do in repairing the damage. What we have lost is a little of our trust in the essential rationality of human existence. We will be a while getting it back.

Ordinarily the impact of even the most heinous crimes is limited. In a nation that witnesses 2,000 homicides a month, shock effects are short-lived. What then made the Tylenol cases so shocking? It was not the mere number of victims. The year scarcely passes without the gruesome discovery of a mass murderer's work—teen-aged boys in Texas and Illinois, black children in Atlanta, young women in New York and Chicago, migrant workers in California.

The thing about those earlier serial murders, as the FBI defines them, is that most such killings can be explained rationally. Charles Manson was strung out on mind-altering drugs. Richard Franklin Speck, who slaughtered the eight Chicago nurses, was under the influence of both drugs and alcohol. There is this, too: There was nothing anonymous about the serial murders of recent years. David Berkowitz, the "Son of Sam," saw his victims down the barrel of his pistol. Wayne Williams in Atlanta first made friends with the children.

The Tylenol cases were different. It is the facelessness—the apparent pointlessness of these murders—that stuns our sensibilities. The mind recoils from the image of an indifferent killer—a murderer who murders persons impersonally, at once deliberately and accidentally, unconcerned by an individual sparrow's fall.

There is a second profoundly disturbing aspect, touching more directly upon our faith in reason and rationality. These killings were an assault upon the cocoon of social order.

In a recent essay on the Tylenol killings, Loudoun Wainwright addressed this second aspect. We live, all of us together, each in his metaphorical tent of assumed security; in one degree or another, we are as snug as embryonic chicks inside their shells. The Tylenol cases ripped the fabric; they punctured the membrane.

We believe in a natural order—in the rising and setting of the sun, in the ebb and flow of tides. We believe the earth will stay solid underneath our feet. We believe in a social order also. In Wainwright's commonplace example, we believe that traffic will stop when the light turns red.

To the point at hand: When we push a cart through the aisles of a supermarket or browse amid the shelves of a drugstore, we believe—or we have believed—that nothing here will harm us. This is part of the confidence—the inner, unthinking, unarticulated confidence—that lies at the core of our social order. It is immensely to the credit of American business that this should be so. Yes, accidents occur. The can of soup is contaminated; the car must be recalled; weevils turn up in the cornmeal. Such events are exceedingly rare. Given the enormous volume and variety of our commerce, the record of safety is

quite simply phenomenal. We shop with faith, with confidence, with trust.

Now come the Tylenol killer and his imitators across the land, and we are shaken by the rape of order. It is as if the earth quaked and the ground trembled. It is as if the light had turned red, and nobody stopped.

THIS TOO will pass. Eventually, we assume (and this too is part of the social order), the anonymous killer will be caught and convicted. New forms of tamper-resistant packaging will be introduced. The manufacturers of over-the-counter products are too big and too respected to be adversely affected for long. Because we want to believe, because we want our cocoons impermeable and our tents secure, we will not stay shaken. But it is imperative, it seems to me, that the business community redouble its efforts to protect its products and their reputations. This is simply good business, but that is the least of the considerations. The public trust has been hurt, and it must be healed. □



The public trust
has been hurt, and
it must be healed.



OVER ONE MILLION AMERICAN WORKERS WILL CALL IN SICK TODAY.

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But there is an alternative. Many forward-thinking companies are finding that a commitment to the "wellness" of their employees can pay substantial dividends.

The Metropolitan Life Foundation, a nonprofit in-

stitution, has taken a leadership role through its active involvement in the promotion of effective health and safety programs at the worksite.

The Foundation can help you plan and implement these programs in conjunction with community-based health organizations such as local Ys, Red Cross chapters, heart associations, cancer societies, lung associations, safety councils and community hospitals.

These programs are designed to eliminate the causes of most employee illness: stress, smoking, alcoholism and drug abuse, hypertension and lack of proper nutrition. Other programs include accident prevention and defensive driving, exercise classes,

First Aid and CPR training.

We have seen such programs help reduce health care costs for all kinds of companies.

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For more information on how you can put these programs to work, contact the Metropolitan Life Foundation, Box F, One Madison Avenue, New York, New York 10010.



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WASHINGTON LETTER

► WHICH WAY wind is blowing on future defense budgets may become apparent soon. Both houses of Congress are scheduled to deal with defense appropriations in lame-duck session. If those favoring cuts are strong enough to prevail then, further cuts are quite likely next year. Outcome may also indicate how far President Reagan will go to preserve a defense budget that many on his own staff believe to be too large.

► DEFENSE SPENDING also figures in big fight developing over federal job creation program. House Democrats have ambitious plans. Senate Republicans hope to head them off with more modest proposal. White House may go along. But there's no money for it. And those who want to take necessary funds from defense budget are headed for confrontation with those who plan to use defense savings to hold down deficit. Possible solution: Tie program to rebuilding highways, financing it with hike in gasoline tax. Something like that might get through.

► REAGAN ADMINISTRATION planners have been "thinking through several supply-side measures to reduce unemployment," according to one high-level source. Under discussion: a wage subsidy for hiring persons receiving extended unemployment benefits, tax credits for hiring young people, a higher unemployment tax for seasonal employers. Business groups doubt that such measures would be cost-effective. But the 98th Congress will see many of them proposed.

► FOUR POTENTIAL THREATS to economic recovery are singled out by William Niskanen, member of Council of Economic

Advisers: reinflation of money supply by Federal Reserve, passage by Congress of costly federal jobs program, adoption of national "industrial policy" providing for federal guidance of economic activity, and rise of protectionism. "Any one of those policies would be a mistake, and the combination of them would be a disaster," according to Niskanen.

► WATCH FOR spate of leaks on fiscal 1984 budget, due for presentation to Congress in mid-January. Individual agencies are now getting word of preliminary decisions by budget office. Process usually triggers intense struggle to preserve bureaucratic turf from budget cuts.

► NEW SPLIT is developing within faction-ridden Democratic Party. It's between old-style liberals from heavy-industry regions of snow belt and new-style liberals from sun belt. The latter are often called "Atari Democrats" for their fascination with high-tech matters. Both groups favor increased federal spending to reduce unemployment but disagree on whether it should be used in attempt to revive yesterday's jobs or to help create tomorrow's.

► CLEAN AIR ACT revision struggle has taken a strange turn. Environmental Protection Agency is saying it will have to impose harsh penalties provided in present law after midnight December 31, if Congress does not act to change them. EPA estimates that almost one fifth of counties in nation are not in full compliance with pollution standards. Conversely, environmentalists--who often accuse EPA of being paper tiger--are urging agency to be more flexible and suggesting various methods of

WASHINGTON LETTER

bureaucratic foot-dragging to extend deadline. Explanation: Environmentalists want law revised by next Congress, which is expected to be more liberal.

► PAY UP, OR...Department of Interior has commissioned Dun & Bradstreet's commercial collection division to recover some overdue reclamation fees from coal mining companies. Officials believe that Interior is first federal agency to use such methods against business debtors, although Education Department has turned over some delinquent student loans to private collectors. Experts say businesses may be behind on as much as \$12 billion in payments to federal government, exclusive of taxes; only about \$6 million is involved in Interior's experiment.

► ENERGY SECRETARY NOMINEE Donald Paul Hodel built reputation as good administrator while he was under secretary of Interior. He also has extensive experience in energy industry, in area of electricity production and distribution. Confirmation hearings could be noisy, though. Opposition is expected from some environmental and conservationist groups. Another potential problem: President Reagan recently told meeting of Republican Party faithful that he still wants to abolish Department of Energy.

► BANKERS have been listening with growing discomfort to latest round of deregulation talk from Washington. Banking regulators are searching for ways to replace--or supplement--government discipline with "market discipline." Coming: more disclosure of sensitive information such as targets of federal enforcement actions and bank-by-bank level of problem loans. Also, regulators say they would like to make big depositors share more of risk, in case of bank failure. Objective is to encourage customers to help keep an eye on their banks.

► AD SUBSTANTIATION requirements imposed by Federal Trade Commission are excessively rigorous, according to FTC

Chairman James Miller and Timothy Muris, who heads FTC consumer protection bureau. Muris would like to institute something resembling cost-benefit test, demanding stringent proof of claims only in cases where potential damage far outweighs potential benefit. Trouble is, the reformers can't find anybody to march in their parade. Some support from advertising trade groups would be helpful, they say.

► BROADCASTING industry, too, is in for some deregulatory action. Chairman of Federal Communications Commission, Mark Fowler, would like to remove most present rules and substitute user fee for exclusive use of assigned frequency. First priority: End rule that stations cannot change owners faster than once every three years. Next: Eliminate requirement for detailed program logs, limits on number of commercials, minimums for news and public affairs, and compulsory survey of needs of local audience.

► SOCIAL SECURITY problems must be resolved in lame-duck session, says Rep. Barber Conable (R-N.Y.), who sits on tax-writing Ways and Means Committee as well as National Commission on Social Security Reform. Reason? Conable is convinced that Americans will accept changes "only in the context of saving Social Security, not as part of an effort to balance the budget." But if nothing is done until the 98th Congress convenes in January, he warns, Social Security will inevitably become a budget issue.

► BACKGROUND of Social Security problems is presented in set of three payroll stuffers available from U.S. Chamber of Commerce. They also outline some simple solutions--such as slowing down growth rate of future benefits and allowing gradual rise in full-retirement age to 68. They are priced on sliding scale from 14 cents to 21 cents per set, based on quantity ordered. Minimum order is 20 sets. For more information contact Special Projects Division, U.S. Chamber, (202) 463-5755.

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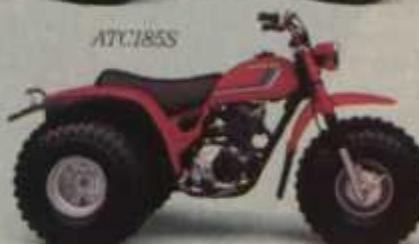
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Shouldn't

Re: "It's Tough Doing Business With Washington" [October].

Although I strongly support reducing red tape, I also believe in honest business practices. You did not choose a very good example to illustrate unreasonable government nit-picking. If the supplier in question contracted with the Army Corps of Engineers to produce 3½-inch survey markers at \$2.50 each, then he should have produced just that and not something less, as is shown in the photo accompanying the article. Reducing the size of thousands of metal discs even by a small fraction of an inch can represent a sizable boost in profit for the manufacturer. He claims that "such rejects still do the job and are used by commercial, state and local surveyors." Fine. If a smaller product will do the job, then contract for a smaller product, but also at a smaller price. Paying full price for undersized goods is a waste of tax dollars.

In my opinion, the new inspector did an excellent job in seeing to it that the taxpayers were getting \$2.50 worth of marker and nothing less. He should be commended, not ridiculed.

GARY L. DAVISON
Vice President
D&G Rent-Alls
Beaver Falls, Pa.

Although some government specifications undoubtedly have been too detailed or too complex, the specification process does serve a purpose. It permits the government to tell a vendor exactly what it wants and puts competitors on equal footing. Loosely drawn specifications, including commercial item descriptions, clearly will allow consideration of more products from more manufacturers. However, loose specs will also permit the acquisition of inferior products.

Another apparent reform is the increased use of negotiated procurement (or bidding with discussion) as opposed to public bid openings without discussion. The former method gives the government increased flexibility in the

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the U.S. Get What It Pays For?

procurement process but leaves everyone outside of government, except the successful bidder, in the dark. This method puts quite a premium on access to inside information. Public bid openings involve a more rigid procedure, but the opportunity for favoritism is minimal, given the inherent public scrutiny.

STANLEY H. HACKETT
Henkel, Hackett, Edge
& Fleming
Atlanta, Ga.

I wonder whether the action by Sen. John C. Danforth's Subcommittee on Federal Expenditures, Research and Rules brought any applause or sighs of relief from the business community. No problems were solved; indeed, the taxpayers' gravest problem was nicely enlarged! Now, instead of doing business with an inspector who does not know his earlobe from a lady's purse, we can appeal our problem to a committee that was created to inspect inspectors who can't inspect.

KENNETH W. THOMAS
Electric Specialties Company
Tulsa, Okla.

Who speaks for labor?

I read with interest the reply by Murray Seeger [Letters to the Editor, October] to your article, "The Sorry State of the Unions."

I wonder what union members really think of having to pay monthly dues and make concessions to retain their jobs, thus preventing their employers from going bankrupt?

Maybe Mr. Seeger could enlighten us as to just whom he polled for his data. I would not say that unions have an overwhelming popularity since only 25 percent of the workers in this country belong to unions. If there were no "closed shops," how much less than 25 percent would there be?

KENNETH E. STEIL
Fraser, Mich.

A Social Security tax shelter?

Re: "Saving Social Security" [October].

I have surveyed a few of my more affluent retired friends and found that virtually all are collecting Social Security benefits "because it is there" and because they contributed to the system for 40 years or more. However, almost

all seem a little embarrassed about taking this unneeded handout.

If these affluent retirees were offered an incentive for declining Social Security benefits, I believe that they might do just that. A reasonable incentive might be a dollar-for-dollar tax shelter. If a retiree declined \$10,000 of Social Security payments, he could declare \$10,000 of other income tax-free.

Of the millions of retirees now receiving Social Security, there must be at least 200,000 who would pass up the cash benefits if an incentive program were skillfully merchandised.

GRIDLEY DEMENT
President
Atlas Silk Screen
Supply Company
Chicago, Ill.

Biased or balanced?

F. Darrell Boyd II and Dean Benton claim that NATION'S BUSINESS presents "both sides of the coin" and is not biased [Letters to the Editor, September]. They are naive.

It is not possible for one publication to present all aspects of any one issue. Your magazine does not, by conscious design, present the views of, say, the Episcopal Church or the Sierra Club. NATION'S BUSINESS reflects the interests of the business community, an enormously vital role.

Of course NATION'S BUSINESS is prejudiced and of course NATION'S BUSINESS presents only its side. Indeed, if it did not, Messrs. Boyd and Benton, you would most likely think less of it.

DAVID L. BONDOR
San Antonio, Tex.

Finding fault in defaults

In your October "Letters to the Editor" column, Arch Shroyer says that 62 of 100 Small Business Administration loans prove to be good risks. This tells me that the SBA default rate is 38 percent.

I do not know of any bank today that could exist with such a default rate. Based on Shroyer's figures, bankers must be 38 times better judges than SBA because their loss rate is less than 1 percent.

MARVIN RAGAN
Vice Chairman of the Board
State Bank & Trust Company
Unadilla, Ga.

Arch Shroyer indicated 62 percent of loans rejected by banks, but subsequently made by SBA, prove to be good risks. How many banks, without taxpayer support, could stay in business if 38 percent of their loans were not good?

WILLIAM G. VANARSDALE
Reno, Nev.

The FDA at work

The Food and Drug Administration's medical device regulations are carefully conceived to increase the agency's budget and influence. Who could object to something called "good manufacturing practices?" They make the regulations ambiguous so that almost anybody can be threatened with compliance. Then, they make compliance so expensive and complex that violations are a certainty.

After a while, the suppliers who manage to remain in business will realize that maybe this isn't such a bad deal after all:

"Before the FDA got involved small shops were always trying to buy their way in with low pricing. Now there's just us and Alpha Frammis and McCollough on the West Coast.

"Who would have believed that we could get \$56 for a bifurcated frammis! We had a triaxial model on the drawing board—it was real good, too—but we put it on hold rather than resubmit it as a new device. Now we make more on the old frammis than we ever believed possible."

HILARY BOEHME
President
Atlantic Ultraviolet Corporation
Bay Shore, N.Y.

She dug the digging

Having recently spent a week in the hot sun, scraping away the dirt little by little (and paying for the privilege, I might add), "They Dig Archaeology" [September] was of immense interest. So much so, that I was disappointed by its brevity. Nevertheless, thank you for bringing back the memory of a very satisfying experience.

Would you please give me the address of Earthwatch so I may write for their brochure?

CAROL J. PRARIO
Rocky Hill, Conn.

Editor's note: The address is Earthwatch, Box 127, 10 Juniper Road, Belmont, Mass. 02178.

A New Chapter for Subchapter S

By Samuel H. Murray

It will be a lot easier now for small business people to have the best of two worlds—the world of the partnership, which does not face double taxation, and the world of the corporation, with its legal protections for owners.

Effective January 1, Congress has substantially overhauled rules governing Subchapter S corporations, all of whose net income is reported for tax purposes by shareholders; the companies themselves pay no tax.

Sub S corporations—at last count there were 500,000 of them—have been around since 1958, but complicated requirements have trapped many unwary business people who formed them. Owners of a Sub S corporation withdrawing income that already had been taxed have often found themselves taxed again. The congressional overhaul, which simplifies rules on distributing income, makes that much less likely. In addition, restrictions on obtaining Sub S status are loosened, and it is easier to retain that status.

A corporation can come under Subchapter S if both the company and its stockholders elect to do so in notices filed with an Internal Revenue Service district director. Here are some of the changes that will make such a decision more attractive:

The number of allowable stockholders has been increased from 25 to 35. There still cannot be more than one class of stock, but now the stock can have differences in voting rights without being treated as being made up of different classes.

Before, not more than 80 percent of gross receipts could be from foreign sources; now there is no cap on foreign-source receipts.

Under the old rules, if a corporation's gross receipts from passive income—such as dividends, interest, rents and royalties—exceeded 20 percent, the Sub S status was terminated. Now there is no limit on passive income unless the corporation has accumulated such income from the period before it elected

Note: For Your Tax File is an information service for readers. See tax and legal advisers for guidance on all specific cases.

Sub S status. If so, and if its current passive income exceeds 25 percent of gross receipts, the excess is taxed at the 46 percent corporate rate. If the 25 percent limit is exceeded for three consecutive years, the Sub S status is terminated.

Also, a new stockholder is now bound by a previously made Sub S election. In the past, a single new owner could terminate the status by refusing to consent to it, no matter how many stockholders wished to retain it.

Not all the changes are favorable for Sub S status. For example, no Sub S corporation created after Dec. 31, 1982, can own a domestic international sales corporation.

Penalties on Benefits

Failure to recognize that an employee benefit can be considered a wage and is therefore subject to withholding can be costly to an employer.

A typical taxable benefit is the personal use of a company car that is also driven on company business. The value of the personal use in excess of any amount the employee pays the employer for it is compensation taxable to the employee. But it is not a wage, so the employer does not have to withhold tax on it. On the other hand, if an employer pays tuition for children of employees, the payments are considered wages, and the employer could be hit with a penalty for failure to withhold and to pay over income tax.

If the employer provides a taxable benefit that constitutes a wage, he should precisely determine its value to the employee and arrange to withhold the required tax from the employee's cash wages.

Compound Interest for IRS

Beginning January 1, the interest rate on added tax that the government says you owe or refunds that the government owes you will drop from 20 percent to 16 percent—the average prime rate for the six months ending Sept. 30, 1982. The interest rate will change again July 1; the rate is to be adjusted every six months.

Although in the past there was no compounding of the interest, it will now be compounded daily. The IRS has adopted a procedure allowing taxpayers to put up a cash bond equal to their potential underpayment of taxes—and the accumulated interest thereon. This will stop the running of interest.

The Cohan Rule Lives

Back in 1930, when entertainer George M. Cohan could not produce records to support his travel and entertainment deductions, a federal court of appeals concluded that he could reasonably be expected to have incurred such expenses. It allowed part of his deductions despite the absence of written substantiation. This court-made law became known as the Cohan rule.

In the 1960s Congress outlawed the Cohan rule in the travel and entertainment area. However, courts have continued to use Cohan-rule reasoning in other tax areas.

In one recent U.S. Tax Court case, a father could not produce records of wages he had paid his children and other teen-agers to help in his newspaper delivery business. The court allowed about half of such wages claimed on his tax return.

If you cannot substantiate all of your expenses with the "best" evidence, the Cohan rule can work for you—provided the circumstances strongly indicate you have incurred the expenses involved.

When W-2s Must Be Mailed

The law has changed on mailing of W-2 income tax forms to employees no longer on the payroll at year-end. W-2s for a given year have had to be mailed by January 31 of the following year, with this exception: If an employee was terminated during the year, the employer was required to send him his W-2 within 30 days. (Few employers did, by the way.) Now the exception only applies if the terminated employee makes a written request for the W-2. □

SAMUEL H. MURRAY is a principal with Arthur Andersen & Company in Washington.



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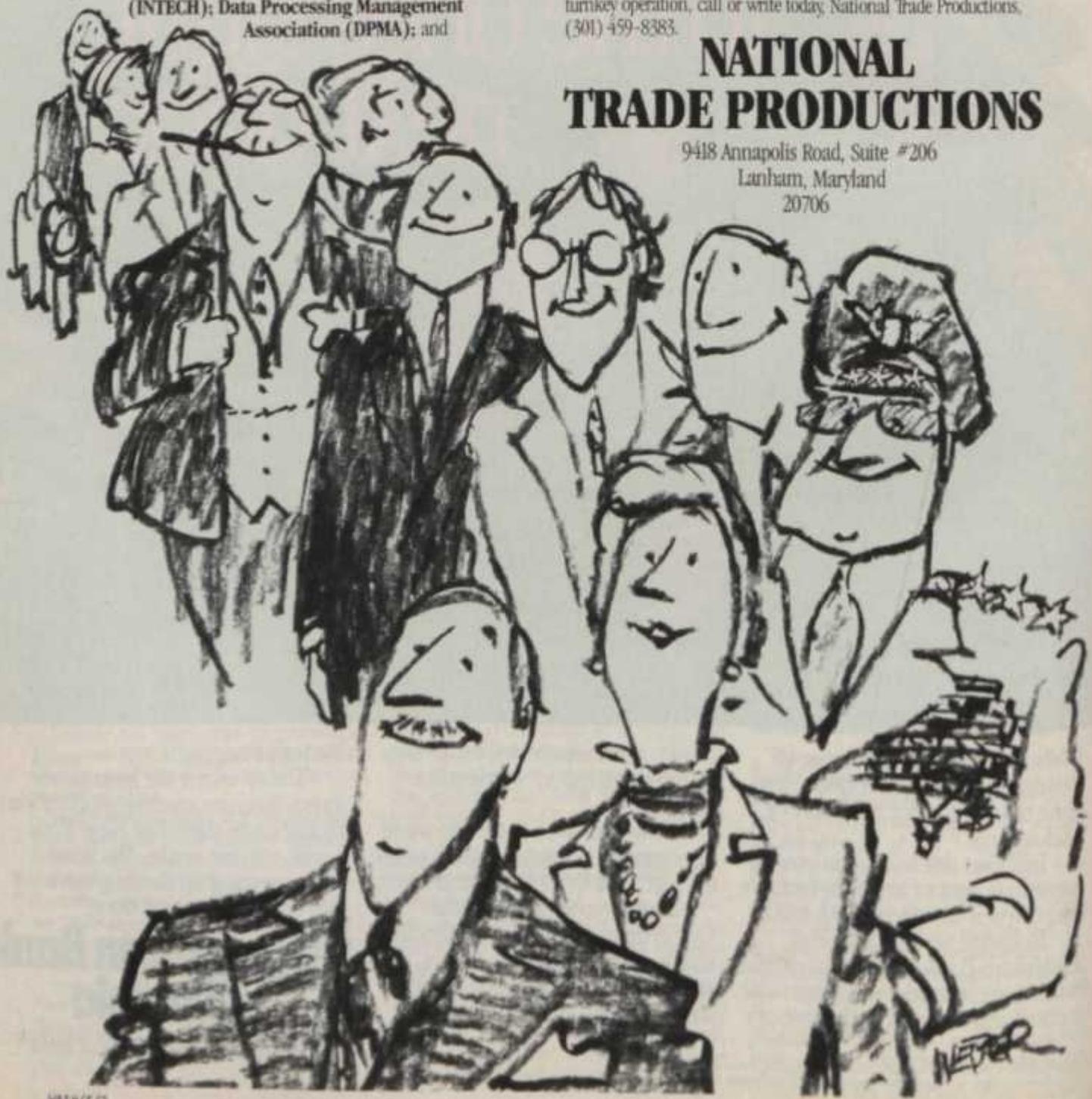
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SBA's Answer Desk Is at Your Service

Small business has a new toll-free information and referral service: the SBA answer desk.

Experts from the Small Business Administration's office of advocacy are prepared to answer small business owners' questions on how to run their firms and how to deal with the government. Queries during the first few weeks of the service centered on obtaining federal contracts and loans, on government paper-work rules and on sources of management training.

If answer desk information specialists can't respond quickly, they will refer the caller to the appropriate government office in Washington or around the country, says SBA Administrator James C. Sanders. "We want to help small business men and women deal with the complexities of government," he says.

Advocacy officials will be listening carefully to the kinds of questions they receive. Frank Swain, the chief advocate, says studying the problems involved "will help all of us at the SBA be more responsive to small business needs."

The phone number in the 48 contiguous states is (800) 368-5855. (The num-

ber isn't available in Alaska or Hawaii.) Hours of operation are 8:30 a.m. to 6 p.m. EST, Monday through Friday. Calls at other times are recorded and answered the next business day.

Panel Urges More Loans, Lower Rates

The Small Business Administration should respond to lower loan rates in private markets by taking steps to lower rates on loans it guarantees. That's the view of a special advisory committee to the SBA that also urges the agency to make more guaranteed-loan money available by "assigning wider authority to private lenders."

James B. Ramsey, Jr., an SBA official who chaired the 15-member committee, composed of lenders and small firms' owners, says he would like to see the committee's proposals go into effect quickly, but he concedes fast action is unlikely. Two new programs require go-aheads from Congress. The programs:

- A secondary market operation run by private brokers that would combine SBA-guaranteed loans in packages of \$10 million to \$25 million for resale to institutional investors. Large transaction sizes would permit lower rates, generating savings that could be passed on to borrowers, the committee says.

- A loan guarantee program that would allow eligible financial institutions freedom to attach SBA guarantees to loans without prior agency review, subject to an overall ceiling on such loans. Red tape would be cut because the SBA role would be limited to monitoring a lender's portfolio rather than approving individual requests for guarantees. And agency money could be applied to more loans because the guarantee would be limited to 75 percent instead of 90 percent as in the existing guaranteed-loan program.

The committee also urges eliminating maximum interest rates on SBA-guaranteed loans—a change SBA Administrator James C. Sanders can make without congressional

action. Under present rules, private lenders in SBA programs can charge up to 2½ percent above the lowest New York prime interest rate. The committee says this imposition of a maximum rate has been counterproductive: Lenders have frequently treated the rate as a recommended one, not as a ceiling.

Another suggestion: increase the maximum loan level to \$1 million from \$500,000. Because of inflation, the lower number is "no longer a reasonable figure" for a significant number of small firms, the committee says.

Push for a Bigger Slice of Federal Pie

Only 20 percent of the approximately \$100 billion the federal government spends annually for goods and services goes to small firms—and that share is shrinking. Government procurement practices often "discourage rather than encourage participation by small firms," says Sen. Arlen Specter (R-Pa.).

Specter has 10 cosponsors for a bill that would guarantee businesses at least 45 days to bid on each contract. The bill—Specter calls it the Small Business Procurement Reform Act—would be particularly helpful to small firms, which are often the last to hear of contract opportunities and thus have limited bidding time.

Also, allowing 45 days to submit a bid would result in "significantly improved" proposals, says Leo J. Dondanville, president of 65-employee Hanson Engineers, of Springfield, Ill., which has designed bridges and buildings for the government. "The two-week period typically provided is barely enough time to gather additional information and develop and submit a proposal," he says.

In addition, the Specter bill would direct federal agencies to break large procurement contracts into smaller components. That would give small firms more chances to submit winning bids.

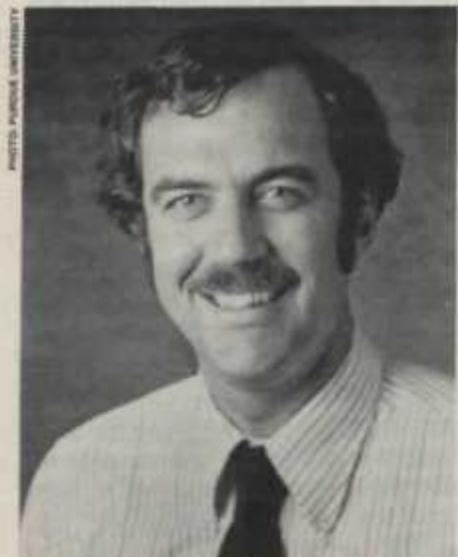
A bill to give small high-tech firms a larger share of federal spending on research and development passed the 97th Congress, and other bills aimed at increasing federal contracts among broader segments of small business came close to passage. New efforts for passage of such procurement legislation are expected early in the next session.

PHOTO: SBA



Frank Swain, the SBA's chief counsel for advocacy, and Janice Somers take calls at the answer desk.

Politics and Stock Prices: A New Link



Gary Schlarbaum: Is the stock market headed for a re-election ride upward?

Now is the time to buy stock, if history is going to repeat itself. A Purdue University research team has found that the return on common stock is usually substantially higher in the last two years of a President's term than in the first two.

Profs. Gary G. Schlarbaum and Rog-

er Huang examined six periods from 1832 through 1980. They found that average annual rates of return during the second half of a presidential term ranged from 5 to 25 percent higher than in the first half of the cycle. The largest differential was found in the most recent period, 1961 to 1980.

Schlarbaum believes that the explanation is that in the second two years of his term, a President is trying to get re-elected by stimulating the economy.

Schlarbaum and Huang compared the performance of two hypothetical investment strategies from 1961 through 1980. In the first, \$1 was invested in Treasury bills and left there. By 1980, it had grown to \$2.93. In the second, the same amount was put in T bills for the first two years of each term and then switched to stock for the second two. That strategy yielded \$12.04.

Putting a Muzzle On Annual Meetings

Should ownership of one share of common stock entitle the Friends of the Furbish Lousewort to disrupt your annual meeting with a demand that you protect this endangered weed?

The Securities and Exchange Commission is considering three alternatives for making such disruption more difficult and would like to hear your thoughts on the matter. The options are:

- Allow corporations to establish, by majority vote of their shareholders, rules on offering of shareholder proposals.
- Remove most applicable SEC rules and let the courts decide what is fair.
- Adopt a minimum qualification for offering shareholder resolutions, such as ownership of at least \$1,000 worth of voting stock.

The number of shareholder resolutions dealing with matters only distantly related to the main business of the corporation has grown geometrically in recent years as general-purpose gadflies have been joined by well-organized religious and political groups.

Some corporate officers consider the resulting debates healthy; others see them as a waste of valuable time. Knowledgeable observers expect the trend toward debates to continue, if restrictions are not imposed.

The SEC is soliciting public comment on the three options until February 24. Its address: 450 Fifth Street, N.W., Washington, D.C. 20549.

ECONOMICS

The Tax Drag on Capital Formation

If a University of Southern California economist's findings are correct, further cuts in the marginal tax rate on income from capital may be needed to stimulate lagging capital formation.

Douglas H. Joines examined the effects on capital formation of changes in tax rates and in government spending (at all levels) for the years 1929 through 1977.

He found that government spending "exerts a statistically significant but fairly small deterrent effect on capital formation." For example, a \$10 billion increase in spending, with no change in the tax rate on income from capital, would reduce investment in plant and equipment "by about \$600 million" (in 1972 dollars).

On the other hand, each percentage-point increase in the marginal tax rate on income from capital "reduces investment in plant and equipment by about \$1.2 billion," a much stronger deterrent effect than from spending.

Joines notes that "effective tax rates on the income from capital were cut substantially in the early 1960s but had returned to their previous levels by 1970." He believes that the increased tax rates "undoubtedly helped stifle

the investment boom of the 1960s."

Joines' research was presented in *Economic Review*, published by the Federal Reserve Bank of Atlanta.

Pension Coverage: How Broad Is It?

A lot more workers can look forward to receiving a pension than a commonly cited statistic would indicate, according to a study sponsored by the American Council of Life Insurance.

Critics of the private pension system often point out that only about half of American workers are covered by it. But "this indicator can be misleading," says G. David Hurd, chairman of the council's task force on the long-range role of private pensions and vice president of Bankers Life Company, of Des Moines. It is misleading because many of those who are not covered at a given time will eventually become covered before retiring, he explains.

For example, the council's study shows that more than 7

out of 10 of the workers now in the 40-to-44 age bracket will be receiving pension benefits (in addition to Social Security) by the time they retire. For married couples, there is an 85 percent chance that one or the other will qualify for a pension and a 50 percent chance that both will.

Of those who never qualify for a pension, 90 percent will have worked very little between 1979 and the assumed retirement date of 2004.

The combination of Social Security and other pensions will replace an average of 76 percent of preretirement income, after taxes, for those covered.

Percentage Receiving Pension Benefits



Source: American Council of Life Insurance

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Jockeying Begins Over NLRB Posts



PHOTO: WILSON LAMAS

John Van de Water (left) and Robert Hunter: One may soon leave the NLRB.

Two vacancies are developing on the National Labor Relations Board, prompting some discreet but vigorous activity by both business and labor to get appointees who share their philosophies. The board is a quasi-judicial federal agency. Since its establishment in 1935, it has concerned itself with conducting union representation elections and resolving charges of unfair labor practices.

John R. Van de Water has been serv-

ing as board chairman since President Reagan appointed him last year. But his appointment has not been confirmed by the Senate. The Senate Labor and Human Resources Committee is split evenly on whether to approve Van de Water, and the full Senate will not act on the nomination until the committee votes. Van de Water's interim appointment expires after the present Congress adjourns. Also expiring in December is the term of board member John Fanning. He is considered the most liberal of the board's five members.

Other members are Robert P. Hunter (a Reagan appointee), Howard Jenkins, Jr., and Don A. Zimmerman.

In theory, the board is nonpartisan; its members are appointed to five-year terms by the President, subject to approval by the Senate. Business contends that the NLRB is still too far to the left; organized labor disagrees.

Huddling Together In An Economic Storm

Labor and management will cooperate more closely in the years ahead, according to a study released by the W.E. Upjohn Institute for Employment

Research in Washington. Titled *Labor-Management Cooperation: The American Experience*, the study says cooperation will be encouraged by these factors:

- The damaging effects of inflation and low productivity on wages and profits.
- Slow, uncertain and uneven economic growth in a setting of high interest rates and huge defense demands.
- Intense foreign competition for markets in the United States and abroad.
- An aging labor force, which will become increasingly concerned with job security.
- Deterioration of the economic base of once-prosperous regions of the country.
- More automation and use of robots in production, threatening conventional skills and existing jobs.
- Budgetary stringency at the state and local levels, diminishing the bargaining power of public-service unions.

The study forecasts more joint programs between unions and employers to raise productivity and to improve product quality. Employers also are expected to share more financial information with unions and to place more labor leaders on boards of directors.

ENERGY

Burning Gas Instead of Dollars

Businesses and homes can now be heated with substantially less natural gas than before, thanks to new high-efficiency furnaces.

Most gas furnaces in use today are 40 to 60 percent efficient, depending mainly on their age. Many new models use well over 90 percent of the gas they burn.

Some operate by pulse combustion, in which small quantities of gas and air are ignited between 60 and 70 times per second. Others have no open flame, which adds to overall efficiency. A few achieve high efficiency with the help of compact heat exchangers.

"As more homes and businesses convert to these systems, energy savings nationwide should be pretty dramatic," says an American Gas Association spokesman.

About 80 percent of nonelectric energy consumed annually in U.S. homes and commercial buildings goes into space heating, according to Ted Gilles, director of advanced energy systems at Lennox Industries, Inc. "If this energy were used at the average efficiency of the pulse furnaces, national energy consumption for space heating would drop almost 37 percent," he says.

Natural gas pricing in the United States is being deregulated gradually, and the expected price increases may spur furnace sales.

Costs Slow Down Conversion to Coal

Until the cost of natural gas rises well beyond current prices, many industries are likely to delay converting to coal for steam generation, thus prolonging the depressed boiler market.

Coal is an economical fuel for large boilers that operate almost continuously. However, the heavy capital investment required to make the switch to coal puts conversion beyond the reach of many companies that use gas.

C. Thomas Breuer, a chemical and metallurgical engineering specialist at Arthur D. Little, Inc., suggests two remedies: An industrial company could arrange for a third party to own the coal-fired system, which the industrial user would then lease. Or the industrial user

could buy steam from a third-party owner-operator on a use-it-or-not basis, paying for the steam's availability, regardless of whether it was used.

Why consider either option? "Supplies of gas aren't a problem now, but in view of the natural gas shortages of the mid-1970s, industrial planners may opt for a coal-burning capability to ensure a steady supply of fuel in the future," says Breuer.

Natural gas executives counter that gas supplies will continue to grow. Energy Department officials aren't as optimistic; they forecast that proven reserves will decline slowly.

Lower 48 Natural Gas Reserves



Source: Department of Energy



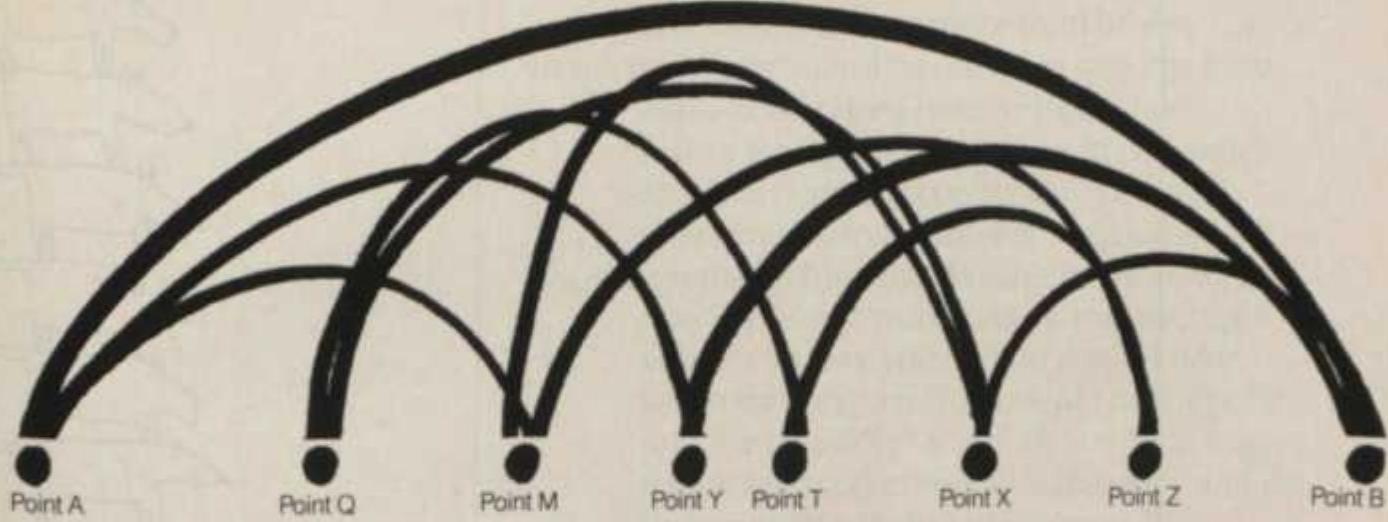
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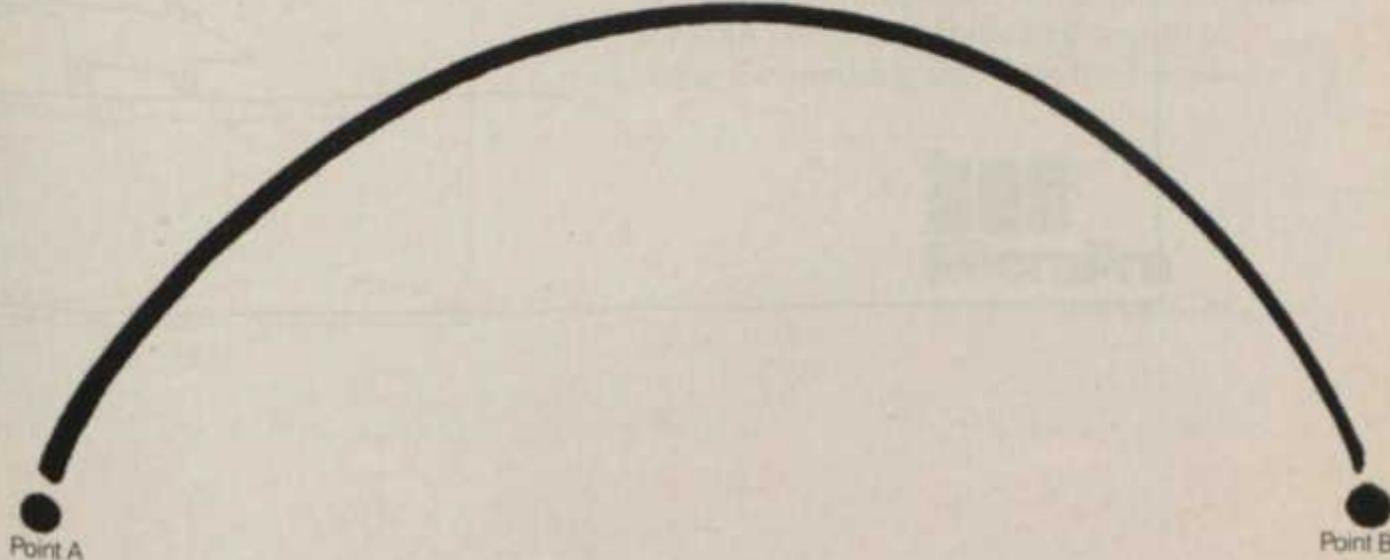


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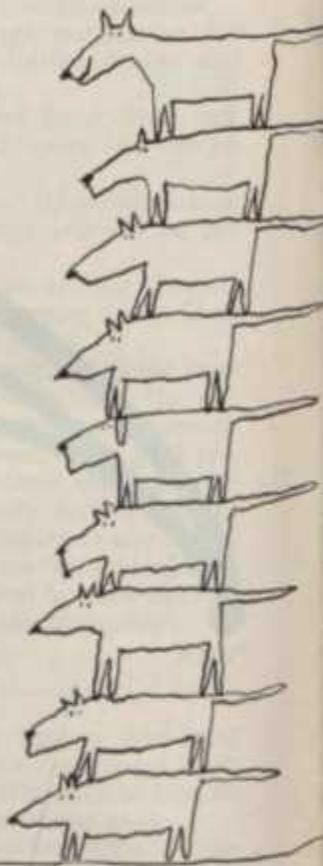
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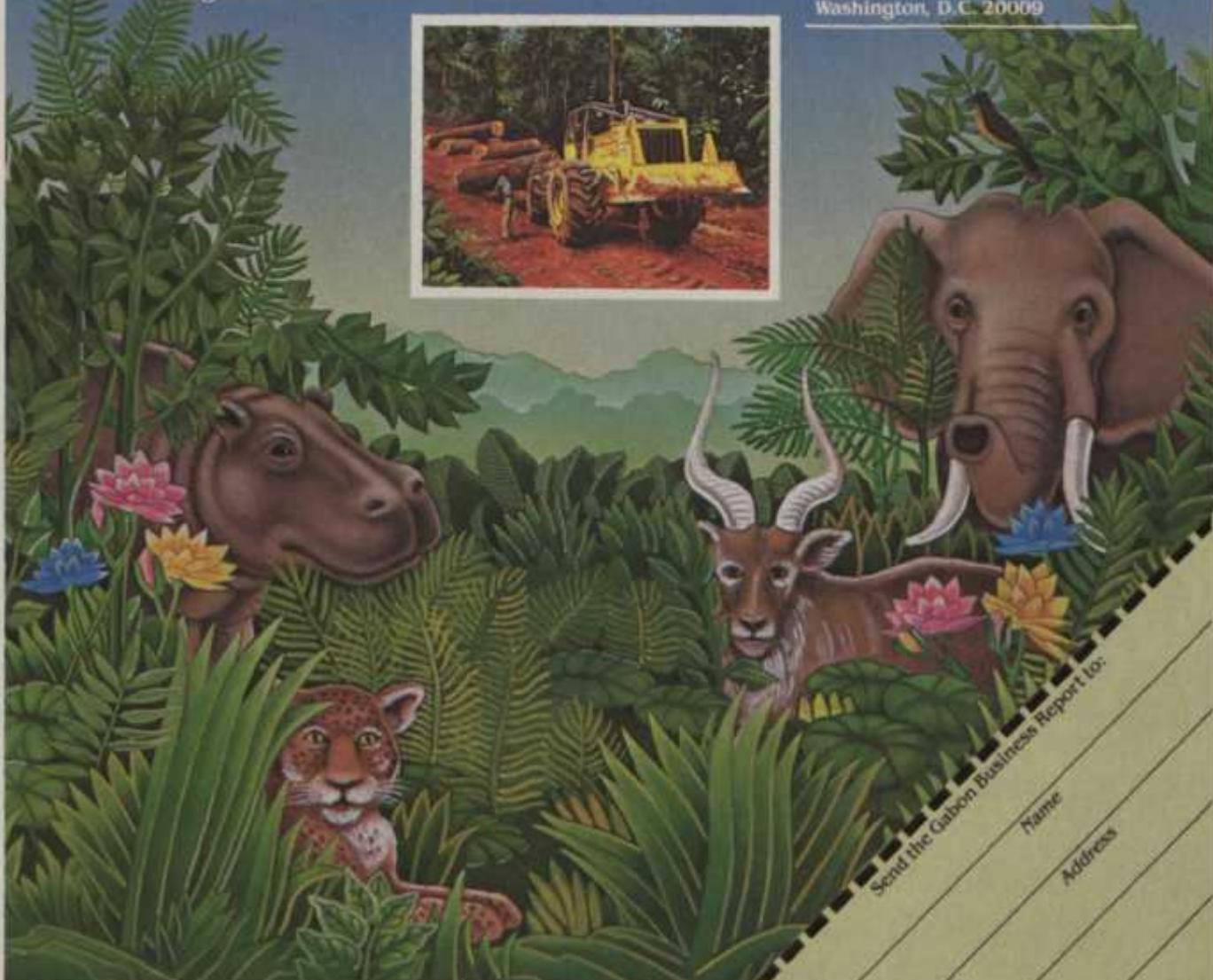
What grows in Gabon — besides the industries developing these incredible natural resources?

The number of US companies in Gabon.

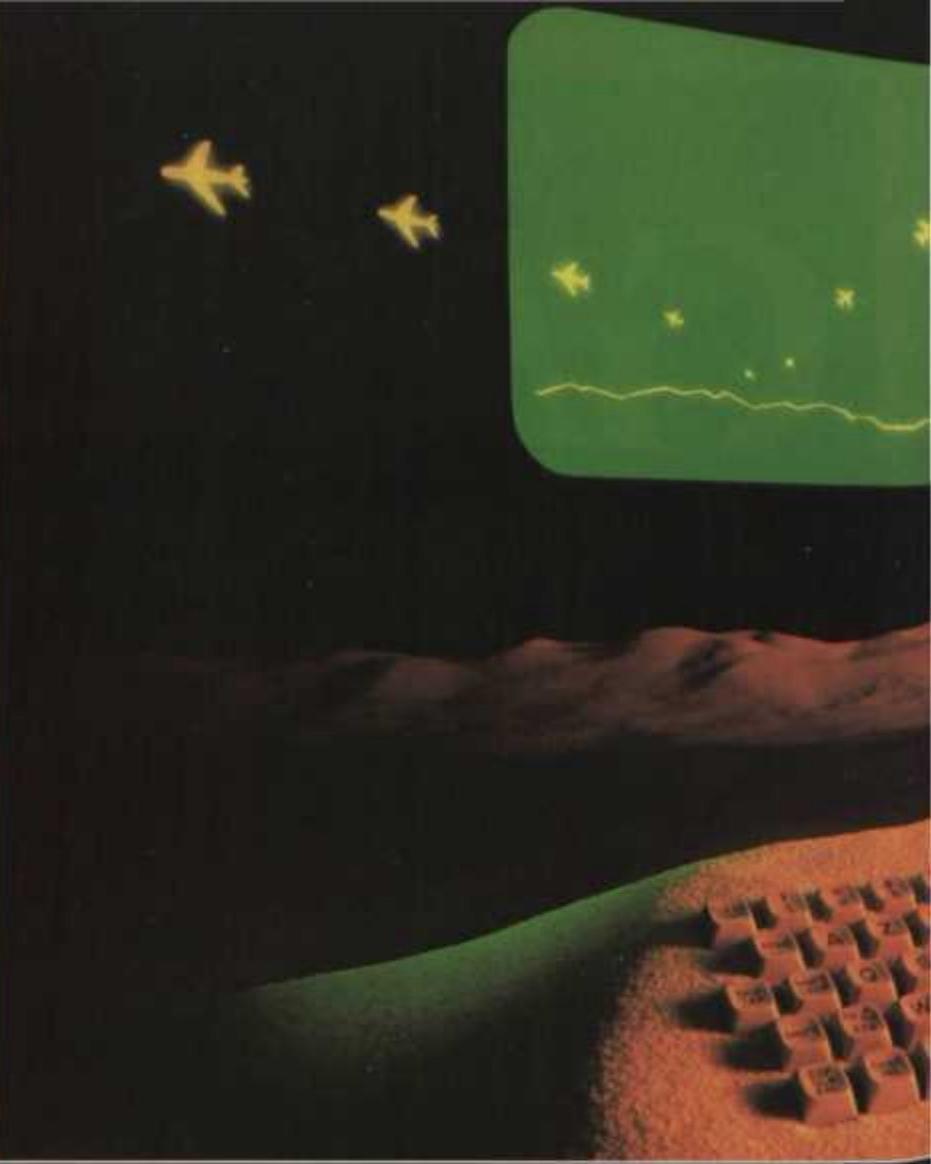
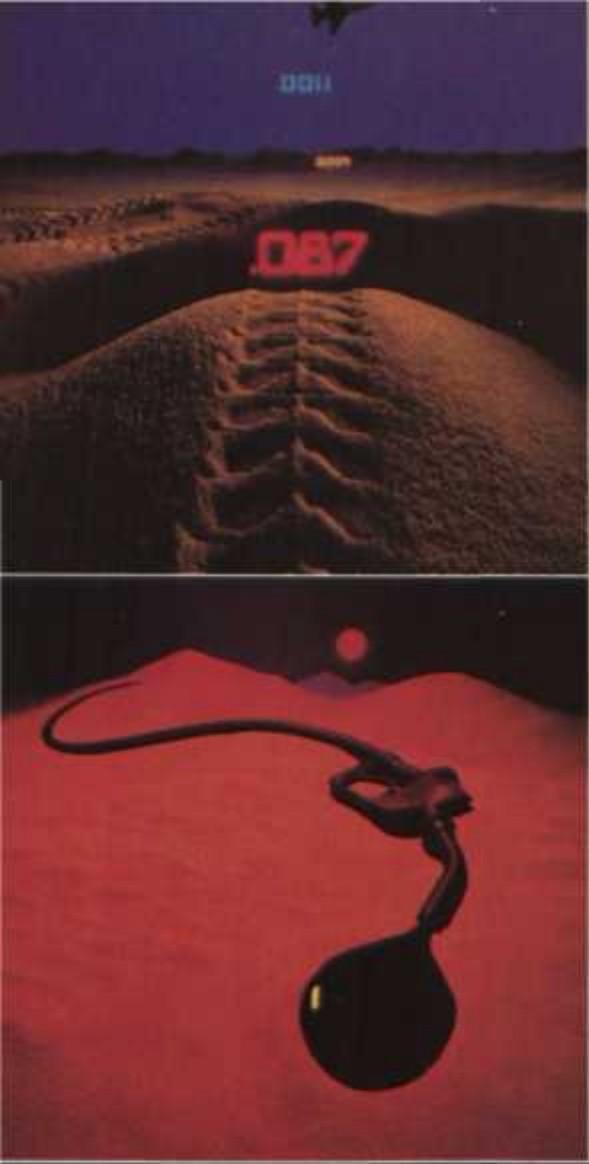
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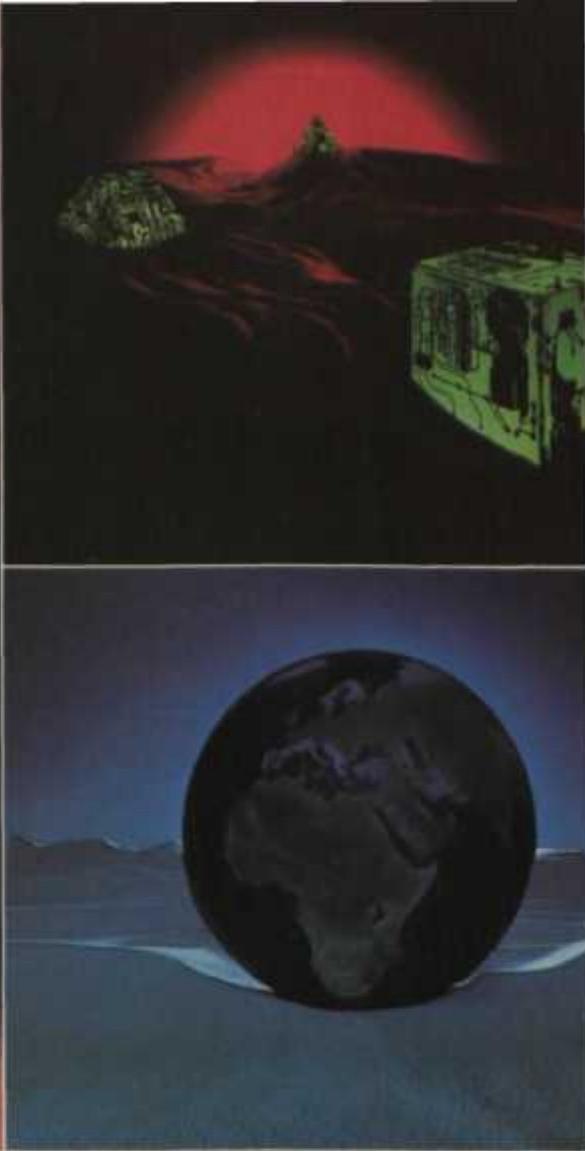
If they make the wrong choices, we could all suffer. Even if they make the right ones, and those decisions are not skillfully implemented, we could still be in big trouble. The stakes, as we all know, are very large.

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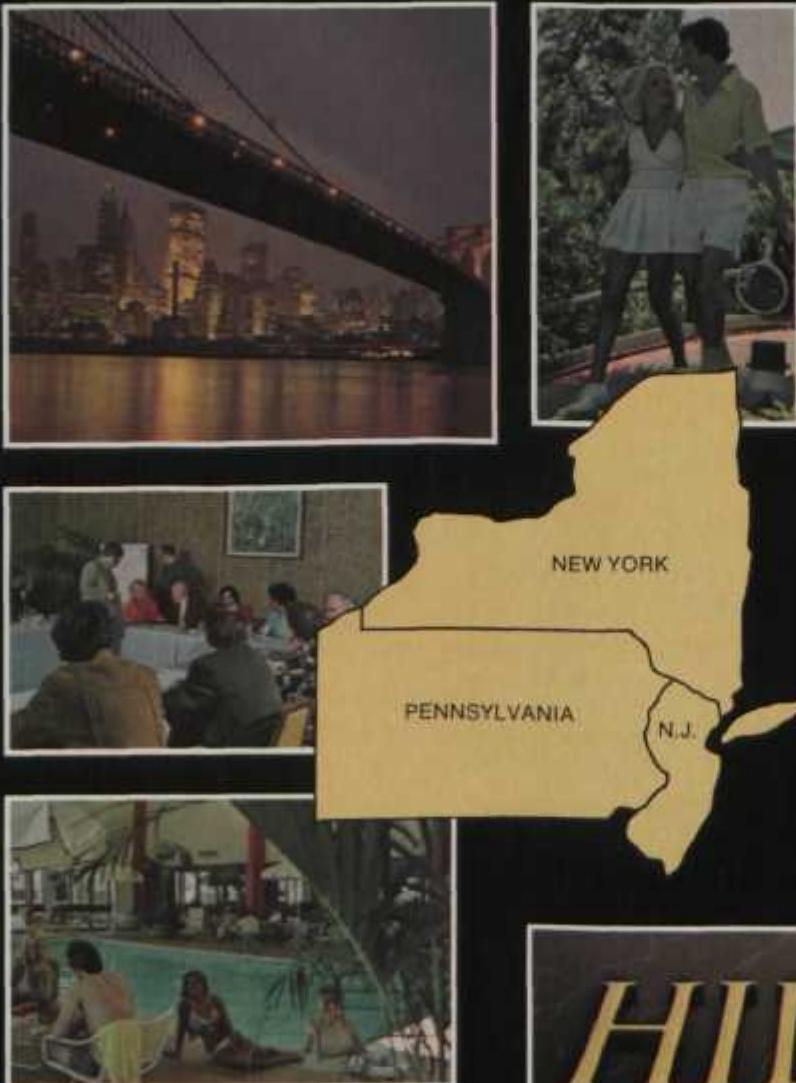
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Broadcasters Balk at Relaxed Rules



Small-town radio stations see a threat from more powerful big-city neighbors.

A broadcasting trade group fears that the Federal Communications Commission's push to deregulate the broadcasting industry will result in neglect of small communities' needs. The National Association of Broadcasters, with a membership of 4,500 radio stations and 690 television stations, points to an FCC proposal to eliminate the certification procedure for multicity identification.

At present a station cannot name two or more communities following its call letters—a multicity identification—un-

less the FCC certifies that the station's signal fully covers each city. If the certification procedure is dropped, perhaps as soon as four months from now, the FCC would be abandoning its "statutory obligation to continue . . . responsive local broadcast service," says NAB lawyer Barry D. Umansky.

Stations in small communities might lose listeners if a powerful station licensed in a major market were able to identify with any city it wanted to, he says. In addition, he says, advertisers could be misled, since a station could claim coverage of cities that its transmitter barely reached.

FCC Chairman Mark S. Fowler says that, ideally, broadcasters should be free of all federal regulation. "If a broadcaster plays fast and loose with an advertiser or a ratings service, it should be a matter for a local court, not a federal agency," Fowler says.

Electronic Mail: Make Or Break for USPS

The U.S. Postal Service must become heavily involved in electronic mail delivery or face an almost inevitable steep decline in its mail volume and work

force. That's the principal finding of a booklength study by Congress' Office of Technology Assessment. OTA says the volume of conventional (paper) mail is likely to start falling in the 1990s because of increasing competition from computer-to-computer electronic mail and electronic fund transfers.

The post office could forestall its decline by expanding E-COM, its modestly successful computer-originated mail service, the study states.

Under E-COM procedures, the USPS accepts letters in electronic form, converts them to hard copy, inserts them in envelopes and delivers them. During July, E-COM averaged 172,000 pieces of mail per week.

Sen. Ted Stevens (R-Alaska), chairman of a subcommittee that oversees the post office, sees electronic mail as "the best opportunity to increase income" from postal operations.

USPS expansion in electronic mail depends on a go-ahead from Congress, but such a decision may be years away. Private telecommunications firms will work to prevent a plugged-in post office, OTA says.

The reason: If the USPS became a major force in electronic mail, the government would be subsidizing competition with private industry.

INTERNATIONAL

Made in U.S.A. by Foreign Owners

What is it that those all-American standbys—Girl Scout cookies, Good Humor ice cream, Saks Fifth Avenue and Lifebuoy soap—have in common?

The surprising answer is that they are among the growing number of products and enterprises now controlled by foreign owners, as the trend toward widespread foreign takeovers in the United States continues.

In a book to be published by McGraw-Hill next March, Earl Fry puts a measuring stick on foreign capital outlays and suggests that they will come in ever-larger amounts into all corners of the United States in the years ahead.

One of the shockers that Fry, a professor at Brigham Young University in Utah, will present in his book is the long list of "American" firms, including the Lum's chain of restaurants and Alka-Seltzer, now in foreign hands.

Fry predicts in *The Politics of International Investment* that within the next few years competing American cities and states will waste a great deal of "incentive" money in the chase after foreign capital.

He says that European investors will gladly locate in this country because of

tax advantages and lower labor costs. When employee benefits are taken into account, he says, American wages are well below those in several European countries.

The Cost of Curing A Canal's Congestion

The Panama Canal will become the setting for one of the world's biggest traffic jams in 20 years, when it will no longer be able to handle shipping demands unless very costly improvements are made.

That's the finding of a panel of international experts put together by the Futures Group, a Connecticut-based consulting firm working on a special study for the State Department.

Experts—including those from the world of finance, engineering, shipping and the Panama Canal Commission itself—agreed in October that building petroleum pipelines along the canal route is a "must." The pipelines should be built with private funds and would pay for themselves in less than four years, they agreed.

The experts could not agree which other improvements to ease future bur-

dens on canal traffic were clearly preferable.

Projections show that 250 million tons of freight will pass through the canal in 20 years (compared with 185 million tons in 1982), which means 48 to 50 ships a day (compared with 37 to 40 ships now).

The experts say that adding two more lanes of locks would cost at least \$8 billion with interest and inflation figured in. A new sea-level canal would cost \$15 billion at current interest and inflation rates and would take up to 15 years to build.



When the Panama Canal's capacity is enlarged, the price tag will be high.

Assistant Treasury Secretary John Chapoton
hopes to see no new tax legislation for a
while, but he is unlikely to get his wish.

TEAMS OF LAWYERS at the Internal Revenue Service are involved in more than 60 projects to draft regulations implementing the 1982 tax increase law. Private sector experts say that no matter how the regulations come out, there will be years of litigation over interpretations of some sections of the law.

Against that background, it is not surprising that the Treasury Department's top authority on tax policy, Assistant Secretary John Chapoton, suggests "a moratorium on tax legislation for a year or two" while recent changes are digested.

That would appear logical after the fiscal upheavals of the past two years, which have seen both the historic supply-side tax cuts of 1981 and the record tax increases of this year.

But fiscal and political developments make it highly unlikely that the administration and Congress will have the luxury of a hiatus on tax legislation.

Two factors are already generating strong pressures for more revenues: continuing deterioration of Social Security finances and annual deficits now threatening to approach \$200 billion by 1984.

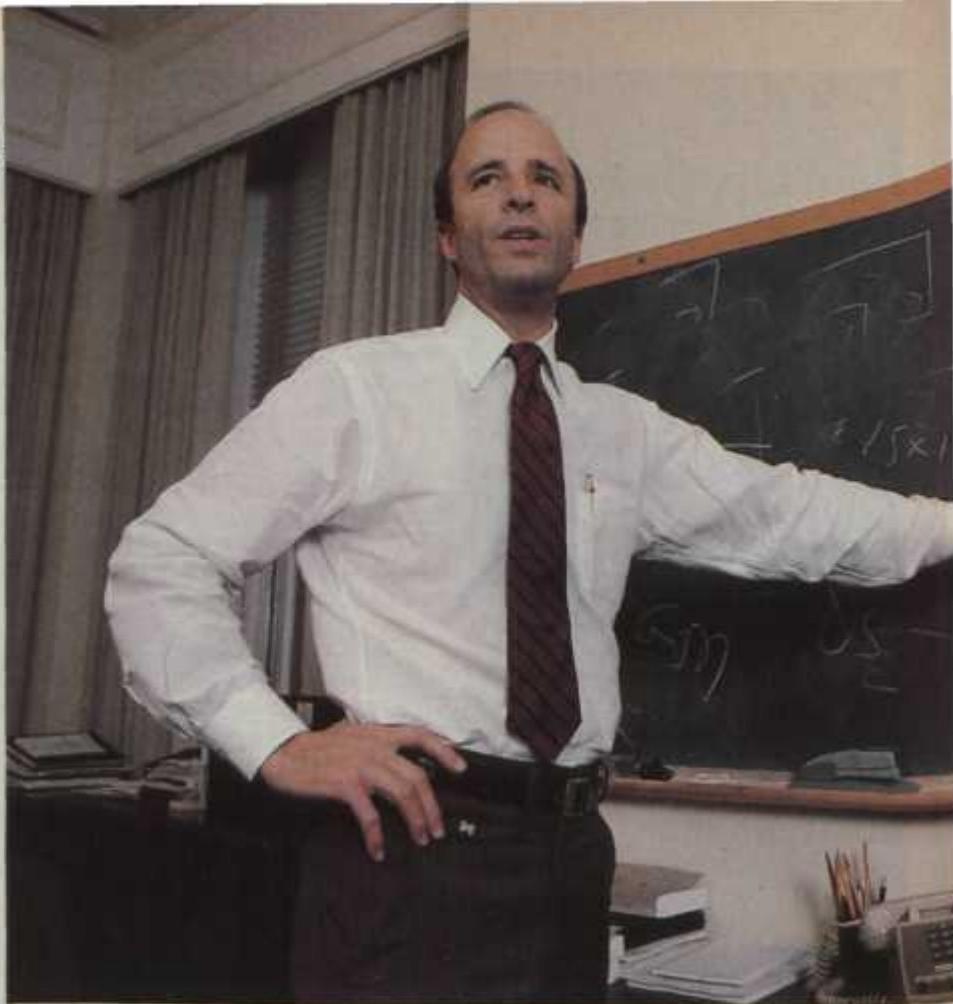
Another factor: Democratic gains in the House of Representatives reduce chances that President Reagan can make much headway on offsetting higher defense spending by reducing growth of social programs.

In addition to Social Security, tax increase efforts will be targeted on increased compliance, closing of so-called loopholes (an approach that generally translates into higher business taxes), an increase in the gasoline excise tax, higher taxes on the insurance industry, and deductions for interest and medical expenses.

At the same time, liberal Democrats anxious to assure sufficient revenues to maintain social programs will be pressing for repeal or delay of the additional 10 percent reduction scheduled in individual income-tax rates and for repeal or rollback of tax indexing, which will limit revenues from inflation-induced wage increases that do not improve purchasing power. The tax cut is due July 1. Indexing is to start in 1985.

Prospects for success next year on either point are virtually nonexistent, as long as President Reagan stands firm in his defense of the two tax-relief measures. GOP control of the Senate, not to mention the veto power, affords powerful protection to the tax cut and indexing.

But Democrats undoubtedly will use both as bargaining chips in seeking tax



Tax Outlook For 1983

Political developments and looming deficits point to more tax increases on the heels of this year's.

increases, particularly those that would fall heavily on business and upper-bracket taxpayers.

Although officially opposed to further tax increases, the administration is not closing the door to them entirely. President Reagan, who had expressed outright opposition to them, appeared to be choosing his words more carefully when he told a Republican gathering recently, "I don't foresee any tax increases that we would introduce." That formulation recalled the record 1982 tax increase, which passed only because Reagan embraced it after it originated in the Senate Finance Committee.

The possibility that tradeoffs with Congress might be needed to help Reagan advance his fiscal goals next year was raised by William A. Niskanen, Jr.,

a member of the President's Council of Economic Advisers. He told a business audience at the U.S. Chamber of Commerce: "It may prove that some form of tax increase will be necessary to get the necessary spending restraint."

CONGRESS IS also sending signals. Senate Finance Committee Chairman Robert Dole (R-Kans.), author of the 1982 tax increase measure, denies he has plans to seek further increases in 1983 but continues to express interest in closing "loopholes."

Dole statements along that line were a prologue to the 1982 bill, which was designed to yield \$100 billion in additional revenues over the next three years.

Since closing a loophole tends to have

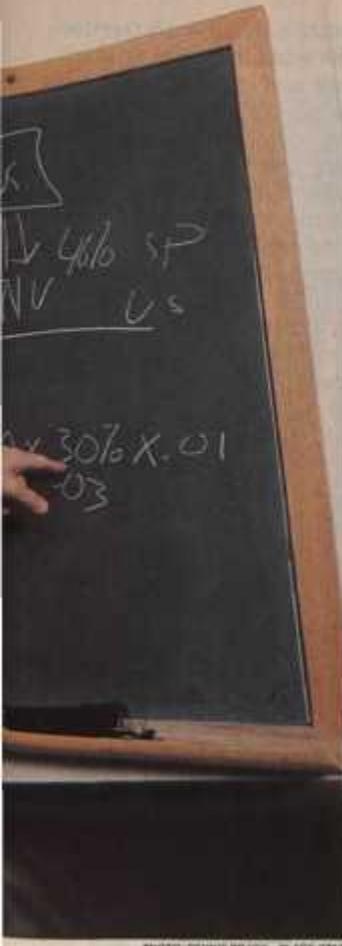


PHOTO: DENNIS BRACK—BLACK STAR



PHOTO: DENNIS BRACK—BLACK STAR

Rep. Dan Rostenkowski (left) and Sen. Robert Dole will be key figures in the federal fiscal picture.



PHOTO: ART STEIN

the same practical effect as raising a tax, even experts often find it difficult to tell the difference.

Another key Republican senator, Bob Packwood of Oregon, chairman of the Senate Committee on Commerce, Science and Transportation and a Finance Committee member, flatly predicts the introduction of a revenue-raising package similar to the 1982 plan, which used improved compliance and closing of loopholes as the basis for extensive tax increases.

The staff of the House Ways and Means Committee has been studying options for increased taxes. The committee's chairman, Dan Rostenkowski (D-Ill.), warns that prospective budget deficits may trigger further business tax increases if Reagan remains committed to the third-year tax cut and to indexing.

Tax experts in the private sector are divided on the outlook for 1983 increases, but the general view anticipates such action.

"Unfortunately, I think there is going to be a move for further business tax hikes," says David Raboy, executive director of the Institute for Research on the Economics of Taxation. As do other experts, he says the energy industry is the most likely target. Energy taxes have been a major factor in the Ways and Means study.

"I wouldn't be surprised if we get a tax bill of some sort," says Robert E. Hanson, director of tax practice for Arthur Young & Company. He points out it will be easier to raise taxes in a non-election year.

Mary K. Ryan, an assistant vice president in the corporate tax office of Harris Bank, of Chicago, says, "I expect the Social Security tax to be raised and the benefits to be cut, but I don't think we are going to get any major corporate tax legislation this year."

David Fransasiak, director of the Tax Policy Center of the U.S. Chamber of Commerce, believes that "given the deficit projections for the next several years, we can expect more tax increases in the name of deficit reduction, perhaps one every year for the next three years."

NOT ALL TAX CHANGES that appear to be in the offing involve increases. There is a good chance that the capital gains holding period will be reduced from one year to six months and that Congress will approve the enterprise zone plan providing tax advantages to businesses that establish job-creating operations in inner cities.

Tax simplification steps will again be proposed, as they have been for many years, but will likely get a relatively low priority. The key initiative in that

Presidential economic adviser William Niskanen says a tax increase may be needed as a tradeoff for spending restraint.

area, the so-called flat-rate tax, enjoyed a flurry of attention this year, but no significant action is expected in 1983.

In its purest form, a flat-rate tax would be a fixed percentage of income for all taxpayers, with no exemptions, deductions or credits.

Most of the pending bills do not go that far but would retain some degree of deductions and progressivity. Congressional hearings and debate over specifics may cover many months, and if legislation finally emerges, it will not be designed to raise significant new revenues. Over the short term, most tax legislation Congress considers will be aimed at doing just that.

IF THERE IS a sleeper in the tax reform movement, it is the progressive expenditure tax, also called a consumption tax.

A progressive expenditure tax could work much like the present income tax, except that anything saved or invested would be deducted from income before calculation of the tax due. Anything withdrawn from savings and spent would be added to taxable income for the year in which it was spent. The same rule would apply to income from an investment and to realized capital gains not reinvested.

Debt could be handled in several ways. One would be to add borrowing to income in the year borrowed and deduct it from income as repaid. But such an approach would cause obvious problems with installment debt—especially home mortgages. A simpler alternative would be to ignore debt in tax calculations. The debt would not be added to income, and neither principal nor interest payments would be deductible.

The expenditure tax idea was subject to much comment at recent Senate Finance Committee hearings on various flat-rate tax bills. Chapoton testified at great length on it. "I started off very negative about it, and I must say, I got very enthusiastic," he says.

Sen. Gary Hart (D-Colo.), a leading liberal, says, "If we were designing our tax system from scratch, there's a good possibility that this would be considered the best tax system." He calls for further study.

The advantages of the expenditure tax are its stimulus to savings and its elimination of complicated rules on capital gains and depreciation.

Economists who studied the potential effects of a consumption-based tax concluded that after a transition period, it could raise U.S. national income 3 percent or more per year.

The biggest obstacle to adoption of

such a tax is the staggering difficulty of getting from here to there. Trying to avoid windfall gains for some and windfall losses for others would require much study, complex rules and a long transition period. "It would be very disruptive," says Chapoton.

Here is a summary of what the experts say will be on the tax-policy agenda when the 98th Congress convenes next month:

Energy. An increase in the excise tax on gasoline—in the neighborhood of 5 cents a gallon—is seen as increasingly likely. The money would go into the Highway Trust Fund and be used to repair the nation's crumbling highways and bridges. Treasury's Chapoton does not consider this a budget issue. "It's a user charge thing," he says. If motorists want the highway system kept up for their use, "then they ought to pay for it," he adds.

James R. McCarthy, director of the Taxation Department at the American Petroleum Institute, says he doubts there would be strenuous industry objection to a reasonable increase. "It has been a long time since that tax was raised," he points out.

Another energy tax may be sought as a means of cutting budget deficits, but it would not be levied directly on Americans. Senate Budget Committee Chairman Pete Domenici (R-N.M.) says advisers have urged him to press for selective oil import fees.

The fees, \$10 a barrel levied primarily on oil from the Middle East, could raise \$15 billion or more annually. Oil from several nations would be exempted from the fees.

Insurance. Dole has asked the staffs of the Senate Finance Committee and Congress' Joint Committee on Taxation to list options for a comprehensive revision of tax rules applying to insurance companies. He has also asked the General Accounting Office for a report on the taxation of property and casualty insurance companies, noting that in many cases it has become difficult to distinguish their operations from those of life insurance companies.

A GAO report on the life insurance industry preceded the 1982 tax legislation, which included reductions in life insurers' tax benefits. Chapoton promises an administration proposal dealing with life insurers. He expresses reservations about the need for property-casualty legislation.

The major question is not whether there will be further legislation affecting insurance industry tax rules, but when it will be enacted. "I think they will be lucky to get the studies done in 1983," says Brenda Viehe-Naess, tax counsel of the American Insurance Association. "I hope the need for revenue is not so great that they wouldn't carefully consider whatever might be proposed."

Foreign Trade. The domestic international sales corporation is on the way out. America's trading partners in the General Agreement on Tariffs and Trade have long considered the DISC system—which permits preferential tax treatment of income from exports—a violation of GATT rules. U.S. representatives have agreed to replace it. The possibilities range from simple abolition of DISCs to complete exemption

from U.S. taxation of all extraterritorial income. The administration is studying the options and expects to propose something as part of the 1984 budget package.

Compliance. One proposal that is likely to receive close attention would limit preferential capital gains treatment to investments that leave a paper trail the Internal Revenue Service can trace.

In addition, Congress will be looking at bills that would require tax withholding on payments to independent contractors and a further speedup in estimated tax payments by corporations and individuals.

Loophole Closing. Business can expect efforts to scale back further the accelerated depreciation schedule enacted in 1981, particularly as it applies to the 15-year period on real property. In another area, the House Ways and Means Committee study appears to have targeted tax provisions governing intangible drilling costs for modification or repeal.

Tax credits for research and development will also be scrutinized for reduction or repeal. Calls for eliminating or scaling back the deduction for business entertainment and travel, a favorite tactic of congressional liberals, will again be heard.

Individual Taxes. Efforts will be made to limit deductions for interest payments, except those on residential mortgages, and to limit the tax deduction on employer contributions to employee health plans. Amounts paid over the limit would be taxable to the employee. □

Tax Indexing: Big Benefit at the Bottom

As liberal Democrats in Congress muster to cancel the indexation of tax rates to inflation—scheduled to start in 1985—word comes from Canada that a similar system there is proving of most benefit to lower income groups.

Canada indexed its tax system in 1974. Each year, the principal personal exemptions and the top of each tax bracket rise by the amount of the increase in the Canadian consumer price index for the previous year. The U.S. system will operate in a similar fashion, adding the "zero bracket amount" to the indexed features. Neither system indexes the corporate tax.

Given these similarities, a Canadian and an American tax expert decided to compare the two systems. The authorities are Jeffrey B. Kane, a manager at Arthur Andersen &

Company, of Detroit, and C.T. Lau, a professor at the University of Windsor, Ontario.

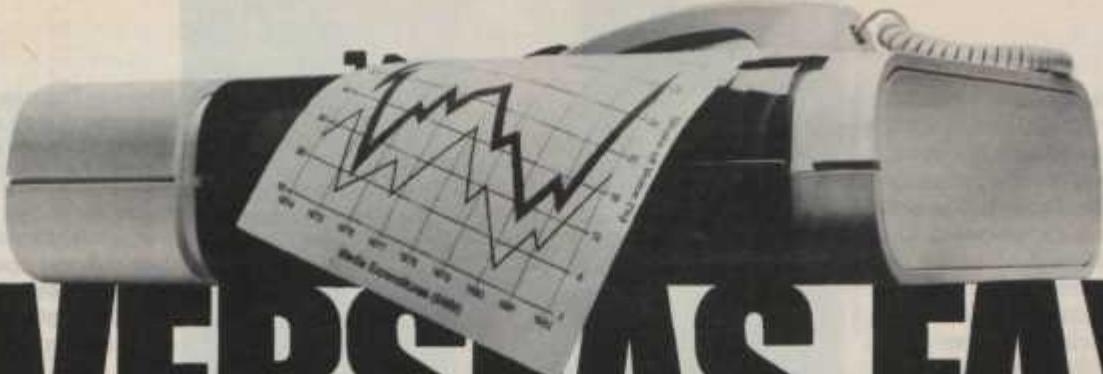
Their findings:

- Inflation-induced increases in tax rates do not increase effective rates equally, but fall more heavily on middle- and low-income taxpayers. This happens because tax brackets are wider in the upper income ranges, and because families with more dependents suffer more from a decline in the relative value of personal exemptions.
- Inflation-induced tax increases may lag the business cycle, taking effect during a slump in response to price rises from a previous boom. Under some conditions, this undesirable effect is offset by indexation.
- Had the U.S. indexation system been in effect from 1974 to 1980, the greatest tax savings would have oc-

curred at the highest income levels, followed closely by the middle income group. The reason for this, the authors say, is that during the period covered by their study, legislated tax changes in the U.S. tended to protect low-income taxpayers from the effects of inflation, but not middle- and high-income taxpayers.

Under the Canadian system, a married taxpayer with two dependents under the age of 18 and an income of \$20,000 would have paid \$2,690 in federal and provincial taxes without indexing. With indexing, the tax was reduced by \$289, to \$2,401—10.7 percent less.

A taxpayer with an income of \$50,000 paid \$651 less in taxes, a saving of 4.2 percent. At the \$100,000 income level, the saving was only 3 percent, cutting taxes from \$42,464 to \$41,205.



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WHEN Democrats rushed a \$1 billion public works jobs program through the House of Representatives in September, Republican members assailed the plan as a budget-busting political scheme sure to die in the GOP-controlled Senate.

Republican senators had, after all, been staunch supporters of President Reagan's stand that the federal government could best fight unemployment with free-market economic policies contributing to a strong private sector.

Within days after last month's election, however, Republican senators themselves had begun exploring the advisability of public works programs to attack unemployment.

In that election, Democrats had not only made strong gains in the House of Representatives and in the ranks of governors, they had come close to regaining control of the Senate.

And they did it, many analysts said, with promises of direct action to ease the jobless rate. Republicans, concerned about the extent to which the opposition appears to have pre-empted the unemployment issue, are now seeking ways to shore up their own position in that area of public concern.

Democrats, on the other hand, are convinced that their assault on Reaganomics went over big with voters, and they plan to step up their attack in preparation for the 1984 elections.

The immediate postelection skirmishing over the jobless issue was an early signal of how the 1982 voting results could affect attitudes and legislative decisions on issues of concern to business in the 98th Congress, which convenes next month.

Democrats will control the House, 267 to 166 (with two Georgia seats left undecided until November 30 because of a redistricting squabble); they added 26 seats to their current margin.

Republicans maintained their 54-46 edge in the Senate, preserving a crucial power base for President Reagan. That base will be particularly important because the 98th Congress is shaping up as the arena for a major test of the President's economic policies.

PHOTO BY HOWARD B. STUSSMAN/LIAISON NEWS INC.



Speaker Thomas O'Neill's expression may symbolize how the Democrats will receive Reagan proposals.

ic demands for cutting back on defense spending plans in favor of social programs.

The groundwork for the economic policy battle will be laid when President Reagan outlines his fiscal and other legislative proposals in his budget message and State of the Union address to Congress. The two presentations, both late next month, will offer specific proposals on which members of Congress will take sides.

President Reagan's concern, as the battle lines form, will focus on whether he can reassemble the GOP-conservative Democratic coalition that enabled him to overcome the opposition of the Democratic House leadership on major economic issues in the first two years of his term.

The coalition Democrats—self-described as the Boll Weevils because of their heavy Southern orientation—gave the President early and strategically important victories on his key proposals to slow spending and reduce taxes. On one crucial budget vote the tally was 217 to 211, with 29 Democrats supporting the GOP position.

But the Boll Weevils—known formally as the Conservative Democratic Forum—are not expected to hold the balance of power in the new Congress, as they do in the current one, because of the enlarged Democratic majority and the reduced Republican ranks.

"There will be a reluctance in 1983 among several Southern Democrats to get on any kind of Reaganomics bandwagon," says a spokesman for Rep. Charles Stenholm (D-Tex.), leader of the Boll Weevils.

One such conservative Democrat is likely to be Tom Vandergriff of Texas, winner of a close race with a Republican candidate who had the strong support of the Reagan administration (see box).

An especially vocal Boll Weevil, Rep. Phil Gramm (D-Tex.), is expected to lose his seat on the prestigious Budget Committee when House Democrats caucus this month and vote on new

What's Ahead In Congress

The election has made it a new ball game in the 98th Congress, and the score will affect business for years. Will conservatives do as well as in the 97th?

By Seth Kantor

The 98th will deal over its two-year term with explosive, multibillion-dollar issues expected to affect the U.S. business community well into the 1990s.

Those issues include Social Security, spending levels for defense as opposed to social programs, environmental legislation, an array of foreign trade issues and tax policy. (A separate report on the tax outlook next year begins on page 20.)

The big clash will be over the best way to deal with unemployment and other recession-related problems—Reaganomics or the Democratic approach geared to more federal activism in the economy. A highlight will be Democra-

committee assignments. Many Democrats remember that Gramm used his committee seat as a base for building support for the Reagan budget initiatives. If Gramm is punished by the Democratic caucus, he is expected to jump parties and run for statewide office as a Republican in 1984.

In the Senate, Democratic opposition to Reagan policies will be intensified by the fact that five of the minority senators want to run for President in 1984—Edward M. Kennedy of Massachusetts, Ernest Hollings of South Carolina, John Glenn of Ohio, Gary Hart of Colorado and Alan Cranston of California.

TOGETHER OR SEPARATELY, these ambitious senators will be pushing issues of their own and trying to block much of what Ronald Reagan hopes to achieve on Capitol Hill.

For example, presidential aide David R. Gergen lists "growth in defense spending"—coupled with new efficiencies—as a primary goal of the White House in 1983. The Democratic presidential hopefuls, like many House Democrats, will fight for cuts in the defense budget in order to preserve social programs.

Gergen also stresses White House opposition to any new tax increases and presidential support of reforms "to cut the regulatory stranglehold" on U.S. business. Democratic leaders are ex-



Sen. John Danforth (R-Mo.) wants equal treatment from U.S. trading partners.

pected to push for tax increases and the preservation of regulatory safeguards.

The administration would be in much worse shape if just 44,000 persons in five states had voted for Democrats instead of for Republicans. Because they did not, the Senate will remain in Republican hands.

In one of those five states, Missouri, Sen. John C. Danforth barely won reelection. His victory could make a difference in the serious debate over U.S. trade policy that lies ahead in the new Congress.

Danforth chairs the Senate Finance Subcommittee on International Trade, and he appears determined to push legislation that would demand "reciprocity" from the United States' trading partners, threatening retaliation if they fail to provide U.S. firms with access to their markets equal to the access they are given to U.S. markets.

Harriett Woods, the Democrat who almost defeated Danforth, championed tougher legislation—a "domestic content" bill that would force foreign automobile manufacturers, particularly the Japanese, to build more of their cars here or reduce their U.S. sales.

This subject was a major one in another Senate race, in Connecticut, where Democrat Toby Moffett made domestic content one of his chief issues. His opponent, Sen. Lowell Weicker, argued against the idea and won a narrow victory.

Weicker, like the White House and numerous business leaders, argues that domestic-content legislation would relieve U.S. unemployment in the short term but would aggravate it over the long run in several sectors of the economy, such as agriculture, that depend

Pete Wilson: An Independent Thinker

Look for Pete Wilson to become a major figure in the Senate in the 1980s.

Wilson, 49, the successful three-term mayor of San Diego, emerged in November as California's newest national political personality by defeating Democratic Gov. Jerry Brown for the Senate seat being vacated by Republican S.I. Hayakawa. Wilson will be showcased by the GOP as an energetic, creative backbencher, and he should be heard from often in the 98th Congress.

Majority Leader Howard Baker is expected to help freshman Wilson get choice committee assignments—probably including the Appropriations and Banking seats being vacated by the defeated New Mexico Republican, Harrison Schmitt—as well as membership on the Senate Republican Policy Committee.



California's Pete Wilson won't be pigeonholed: He backs a death penalty, opposes abortion curbs.

Wilson says his top priority in 1983 will be to push for "a systematized annual reduction of the budget." He is expected to support White House efforts to reduce government spending, but Peter Barton Wilson—a Yale graduate and a former Marine Corps rifle platoon lieu-

tenant who once hoped to become a novelist—is also expected to establish himself in Washington as an independent thinker.

For instance, while Californians were electing Wilson on November 2, they also voted overwhelmingly for a ballot proposition favoring an international nuclear weapons freeze. Wilson will not support a freeze because, he says, "it eliminates a reduction in arms. The Soviets want a freeze, which would cause fear among our allies in Europe."

Wilson says he supports a strong Social Security system but is convinced the system must be overhauled to avoid bankruptcy after the turn of the century.

He parts company with conservatives who would outlaw abortions, saying abortion should be "a matter of personal choice."



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Organized labor and four of the leading Democratic presidential hopefuls—former Vice President Walter Mondale and Sens. Kennedy, Cranston and Hollings—have promoted domestic-content legislation, and there appear to be enough Democratic votes to pass such a bill in the House during the 98th Congress. But domestic-content backers won't have enough votes in the Senate.

This pattern—in which the legislative initiatives of one house break apart on the immovable opposition of the other house—may be repeated many times as the 98th Congress wrestles simultaneously with serious economic problems and the political temptations that surround a presidential election year.

Almost certain to be a casualty of the sharpened division between the two houses is the proposed constitutional amendment to require a balanced federal budget.

The amendment was approved this year by the Senate but was rejected by the House on a vote of 236 to 187—46 votes short of the required two thirds. An even more emphatic rejection by the House is likely if the amendment comes to a vote in the 98th Congress, given that, as a group, the 57 Democratic freshmen will tilt the House in a more liberal direction.

It is too early to tell whether Social Security reform will fall victim to partisanship.



Rep. Phil Gramm (D-Tex.), a Boll Weevil, warns he may bolt to the Republicans if he's ousted from the Budget Committee.

The recommendations of a blue-ribbon panel headed by economist Alan Greenspan will undoubtedly shape Congress' debate. Ultimately, the Democratic leadership in the House will have to decide whether it wants to reach a compromise agreement with the President or use Social Security as a weapon against the Republicans in 1984.

The 98th Congress may also consider legislation with more specific impact on

business than such big-picture legislation as the balanced budget amendment and Social Security reform.

For example, Congress may pass a bill replacing the varying state standards on product liability with a uniform federal statute (see article on page 74). The last increase in the minimum wage went into effect almost two years ago (to \$3.35 an hour on Jan. 1, 1981), and legislation to raise the minimum again may receive a cordial welcome in the now more Democratic House.

For all of the changes in the House's membership (there will be at least 81 new members—almost 1 in 5—compared with only 5 new senators), much will remain the same from the 97th to the 98th Congress.

House Speaker Thomas P. O'Neill (D-Mass.) and Majority Leader Jim Wright (D-Tex.) will be back, as will Minority Leader Robert Michel (R-Ill.), who survived a tough race with only 52 percent of the vote. Also returning are the Senate leaders, Howard Baker (R-Tenn.) and Robert Byrd (D-W.Va.). In both houses, most committee chairmen will be the same.

The 98th Congress is likely to get off to a sluggish start, with the first few months devoted to organizing and setting agendas. Then it will be time to get down to serious business—but before you know it, the 1984 campaign will be under way. □

Tom Vandergriff: Fastest Gun in the 26th

The 26th in Texas is a new congressional district—one of three that Texas gained because of its population growth in the 1970s—and there was a real political shootout to see who would represent it.

Squeezed between Dallas and Fort Worth, the 26th includes Arlington, the third largest city in the Dallas-Fort Worth metropolitan area. During the 26 years that Tom Vandergriff was mayor of Arlington, it grew from a town of 7,500 to a city of 150,000. Vandergriff, an automobile dealer, helped bring in a General Motors plant, the Six Flags amusement grounds and an American League baseball team.

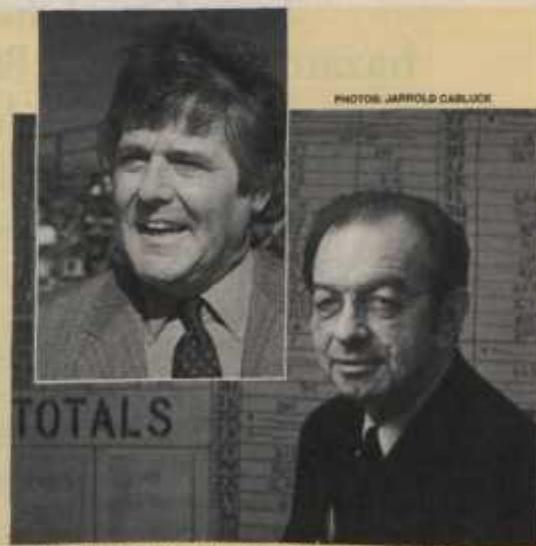
Vandergriff was approached by Texas Republicans about running for the new congressional seat. The voters within the new district's boundaries had supported Ronald Reagan by 67.1 percent in 1980, and the 26th was by all measures a GOP district. But Vandergriff decided to run for Congress as a conservative Democrat.

Former Fort Worth City Council-

man Jim Bradshaw, a strong conservative, became the Republican candidate and won the vigorous support of President Reagan and the U.S. Chamber of Commerce. But 14 past presidents of the Arlington Chamber of Commerce issued a widely circulated two-page endorsement of Vandergriff, praising him as a pro-business candidate and community leader. Vandergriff also got strong support from organized labor.

The battle was on, and both candidates attracted heavy financial support from outside groups. The Boll Weevil PAC, the political action group of Southern Democratic congressmen who supported Reagan in his budget fights, gave \$1,000 to Vandergriff.

On election day Bradshaw appeared to have won, 67,411 to 67,277. But when the absentee ballots were counted, Vandergriff was the winner—by 434 votes. With only 50.2



In the closest of all House elections in 1982, Tom Vandergriff won a new Texas district with 50.2 percent of the vote, defeating Jim Bradshaw (inset), the Reagan choice.

percent of the vote, he won the closest victory in all of the country's congressional districts.

The near-even split in the 26th gives special force to Vandergriff's appeal that it is time to make "a bipartisan effort at solving our problems."

We're doing what has to be done.

Danger- Handle With Care!

Love Canal dramatized the dangers of hazardous wastes. Business, government, and the insurance industry are showing that today's dumps need not be tomorrow's disasters.

In a modern, heavily-industrialized society, waste materials are abundant and, in some cases, dangerous. Toxic leftovers from many industrial processes can pollute the environment, contaminate the water, and threaten the public safety. And, let's face it, serious accidents have occurred.

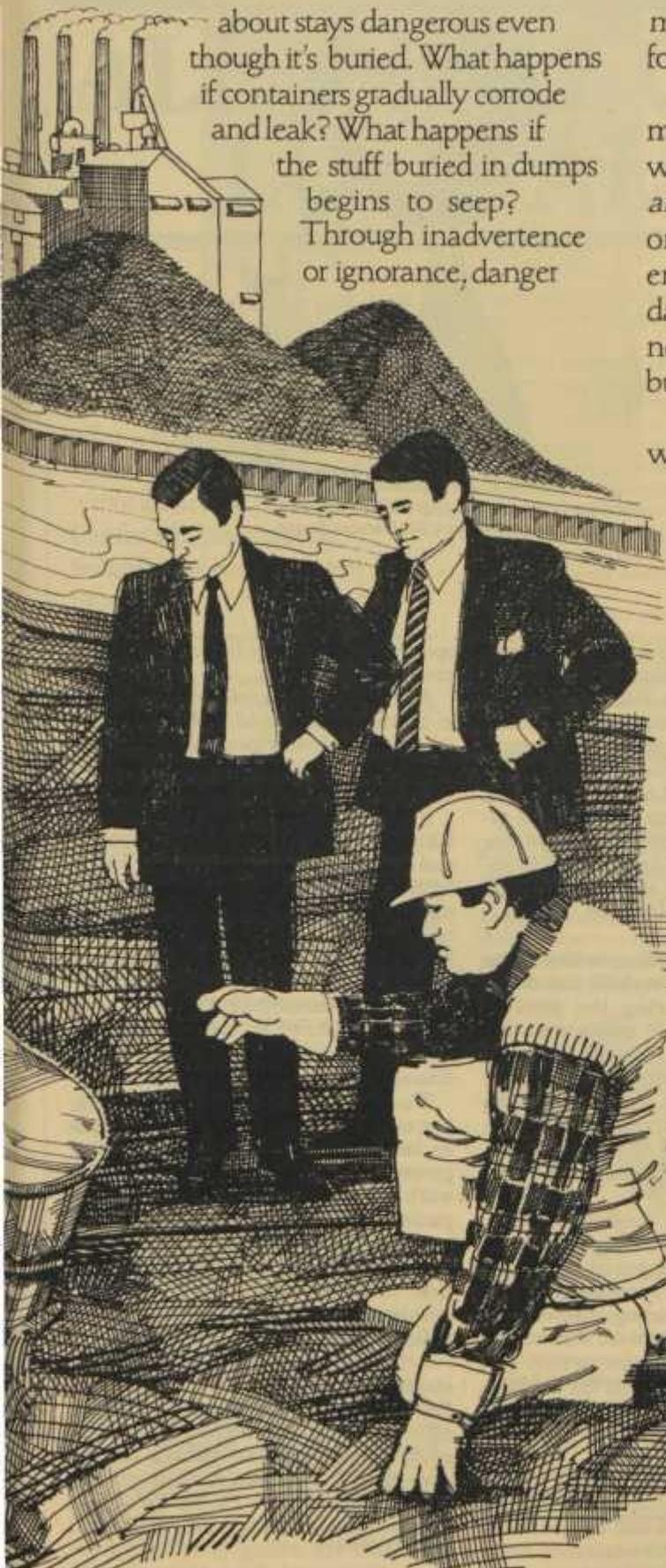
Today, the combined efforts of legislators, regulators, responsible waste-generating companies, the insurance business, and a concerned public are being felt.

New laws and standards go a long way toward making sure that firms that produce, move, store, or dispose of dangerous substances do so with care. Government tests and inspections are meant to assure compliance and minimize risk. Concerned

industries have developed new technology and methods for safe waste disposal. But with materials this potentially dangerous, the best of care may not prevent every accident.

Although any accident with hazardous substances is bad news, some accidents are worse than others. And more insidious. Sudden spills and fires are quickly found and remedies quickly applied. Liability insurance for those accidents has been available for some time. But the material we're talking





about stays dangerous even though it's buried. What happens if containers gradually corrode and leak? What happens if the stuff buried in dumps begins to seep? Through inadvertence or ignorance, danger

may lurk. But now, liability insurance for this risk, too, is becoming available.

Those in the business of producing, moving, storing or disposing of dangerous waste must be responsible to the public for any harm done them—sudden or gradual—one leaking drum or the slow leaking of an entire dump site. If they can't pay for the damage done, they shouldn't be in the business. Under new law, they *can't* be in the business.

Responsible handlers of hazardous waste are embarking on a difficult path—continuing industrial activity in a manner as safe to society as possible and in compliance with extensive governmental regulation.

Property-casualty insurance companies are helping those waste generators by evaluating their risk potential. And now, insurance companies have devised a way for waste generators to be financially responsible as regulations require, able to compensate people harmed by either sudden or gradual pollution.

Liability Insurance for Environmental Impairment is one of the most challenging coverages property-casualty insurance companies have ever been asked to provide. The potential for loss to both people and property is large and little known. But if proper safety standards are issued and enforced by either federal or state government, and if insurance companies are allowed to administer the coverage with some sense of certainty, this new insurance can do a job.

It will be one of the best ways for handlers and disposers of toxic wastes to meet the responsibility that the law demands and the public deserves.

We're working to keep insurance affordable.

This message presented by the **American Insurance Association**, 85 John Street, New York, NY 10038

Taking The Small Firm Into Account

Companies of all sizes now must follow the same rules on financial statements. But there's a move to change that.

HER FIRM should have charged a small-business client \$2,000 for the complex work involved in computing deferred taxes, recalls Sandra Suran, a certified public accountant in Portland, Ore. But, she says, "I could not justify the cost, so I ate half of it."

The incident was part of a pattern that showed her the extent to which smaller, privately held companies are required to pay for needlessly complicated financial statements, she says.

Suran, senior partner in Suran and Company, a 30-employee accounting firm, insists that present procedures force smaller companies to pay for information they do not need unless they are floating bonds or issuing public stocks.

Accounting standards are set by the Financial Accounting Standards Board. (See page 32.)

The problem, Suran asserts, is that companies of all sizes must adhere to the same rules, and that puts a burden on small and medium-sized firms.

As chairman of the technical issues committee of the American Institute of Certified Public Accountants, Suran has spent two years helping to produce a succinct report that says, "Certain information required in all financial statements is either irrelevant in assessing a small company's financial status or not sufficiently beneficial to justify the cost." Unnecessary effort must be spent to calculate deferred taxes and classify leases, for example, while more pertinent financial information isn't included, the report says.

The report, which still must be analyzed by other AICPA committees be-

fore it can be forwarded to the Financial Accounting Standards Board, goes on to state that the FASB "does not give adequate consideration to the needs of private companies before issuing standards." In the future, the report says, the FASB should "consider, measure and evaluate the possible effects of its pronouncements on private companies and their accountants to ensure that accounting standards are relevant and cost-effective for all companies."

The standards burden, which some accountants call an overload, has developed gradually during the past 20 years. In the 1960s, 56 new accounting and auditing rules were introduced; during the 1970s another 512 were added, in part because of pressure from the U.S. Securities and Exchange Commission, which monitors the financial disclosures of public companies.

MANY OF THESE pronouncements, Suran says, are inappropriate to private companies' financial needs and add to the cost of preparing statements. "Rules concerning deferred tax calculations originally were formulated so that large companies, which can more readily use beneficial tax accounting methods, still would project accurate pictures of their potential tax burden," she notes.

The AICPA committee also examined the treatment of capitalization of interest, imputed interest and compensated absences. Recommendations were made to change some disclosure rules for mergers, troubled debt restructurings, research and development costs, discontinued operations, tax benefits of

operating loss carry-forwards and investment tax credits.

Any change of benefit to small firms in the two volumes of bible-thin paper that comprise the generally accepted accounting principles is at least two years off.

It will take that much time for the FASB to work through its comment and hearing process, says Glen Hildebrand, assistant director for research and technical activities. Even then the changes "won't be of the magnitude Suran is suggesting," he says. "Some rules may be considered too complicated by small accounting firms, but that must be balanced by the needs of the companies themselves and the users of financial statements."

The AICPA, with 190,000 members, has acknowledged the division between its large and small member companies by setting up a section for CPAs who work primarily with small private companies. It has also appointed a vice president who will represent the views of small CPA firms within the association. There are about 28,000 small accounting firms and fewer than 20 large, national firms.

Accountants are necessary to certify statements for lenders and to provide financial information needed to manage effectively. But the accounting system could benefit from "an injection of common sense," says James C. Rogers, a CPA in Williamsport, Pa. He wrote Suran's committee: "I hope the AICPA and the FASB are willing to recognize the disservice passed down to our [small] sized firms by their past theoretical positions."

—Michael Thoryn



PHOTO: JEROME HART

Smaller firms are paying for information they don't need, says CPA Sandra Suran.

ALL SMALL COMPUTERS LOOK ALIKE. BUT.

All desktop business and personal computers have a keyboard-video terminal, a processor and disk drives. Most offer a single-tasking operating system called CP/M.[®] And now we're all priced about the same! Confused? You must be. Soluble? Of course. How? Read on.

The fact is, there are significant differences in operating systems. It's what happens inside the computer—how data is recorded, retrieved and processed—that separates the men from the toys and determines what the real cost of your computer will be.

The surprising truth is that conventional designs actually slow computer operations and waste disk space.

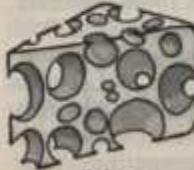
STORING DATA

Head movement. Logically, files on the disk (or diskette) should be organized to minimize head travel. Yet most computers require at least two movements: one to a central index, a second to the data. Every time the head moves, the computer loses time.

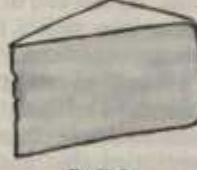
CADO does it differently. We combine the index with the data on the same track, and use a unique locating system to both file and find records with a single head movement. **Response time is cut at least 50% and both disk and head wear are reduced!**

Space usage. Most computers assign equal space for each field of a record, regardless of its actual length. That means a ten-character entry in a 25 character field wastes 15 characters of expensive space.

CADO engineers had a better idea: variable length records. Each record uses only the amount required, eliminating senseless waste.



Others



CADO

Sectoring. Disks are divided (much like a pie) into slices called sectors. Records must fit within a sector in conventional systems. Should a new record exceed the area remaining in a sector, the computer leaves that area blank and starts a

new sector. CADO's "soft sectoring" ignores these illogical boundaries, using every bit of available space.

Storing numbers. Conventional wisdom requires all numbers to be stored in decimal form with each number requiring space equivalent to its length. CADO chose to use computer logic to store decimal values in binary form—**saving 50% or more of the space normally required!**

And more data on disks eliminates clumsy "diskette shuffle" common to most small systems. In fact, CADO offers complete, interactive programs for general ledger, accounts payable, accounts receivable, payroll, and inventory, all on a diskette based system.

The bottom line? CADO puts up to three times the data on the same space as competitors...including IBM...and delivers the fastest response in the business. You can save up to \$8,000 in disk drive costs alone—more than the total cost of a CADO computer!

MULTI-TASKING

Multi-tasking is computerese for the ability to perform more than one job at the same time. A simple example of this is the ability to print a report while entering another job. No personal computer and few small desktop computers offer that capability. CADO's unique base register addressing architecture allows **four** different tasks to be performed simultaneously with no noticeable degradation in response.



And every CADO system is expandable in your office to at least four work stations. Most small computers can't expand at all. Even with IBM's Datamaster, you have to buy a second computer just to get one more terminal.

The bottom line? You only buy your computer once. It grows as you grow, saving thousands in obsolete hardware and more thousands in software conversions.

WORD PROCESSING

Word processing on all personal computers and most small business systems is something of a joke. Screen handling and commands are designed by programmers for computers, not people. Features are limited, and often include only elemental editing.

A professional system like CADO's includes

document (not page) orientation, paginating, centering, justifying, marginating, ghost-hyphenating, super- and sub-scripting, footnoting, global word changing, word finding, column handling, multiplying...it's a long, long list.

All CADO systems integrate word processing capability with data files! There are only two fully integrated desktop systems extant: CADO is one of them.

The bottom line? Professional word processing and data processing in a single system at a fraction of the cost of stand alone products.

OTHER CONSIDERATIONS

- CADO isn't limited to floppy disks like most systems. In fact, with CADO's optional desk top storage devices you can have up to 15 million characters of high-speed, compacted files. That's equivalent to 45 million characters of conventional files!
- CADO terminals operate at a speed of 19.2 Kbps—twice the industry norm.
- Only CADO offers Just Ask™...the English language inquiry method that lets you get reports from your computer without expensive programmers! This feature alone will save thousands over the life of your system.
- Only CADO has Computer-Aided-Tutorials that teach basic accounting and word processing while your people learn to use the software.

CADO professionals offer you sales, service, and support in one location. And they can provide software packages for hundreds of different businesses and professions field-proven in over 10,000 offices world-wide. Like it or not, attempting to install a business system without professional help is akin to do-it-yourself brain surgery.

The bottom bottom line? The purchase price of most desktop systems is only a down payment—an entry fee. Costs will continue to mount for years. A CADO system is the lowest cost, most responsive system available today. Its unique design features make it possible for its micro logic to compete with systems as large as IBM's System 34...and win! Want to know more? Send in the coupon now.

CADO

the unconventional
business computer

CADO SYSTEMS CORPORATION
2771 Toledo St., Torrance, CA 90503
(213) 320-9660

Hmmmm. I want to know more. Please send me a free brochure now.

NAME _____

COMPANY _____

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PHONE _____

A Private Group Whose Word Is Law

This seven-member board sets accounting rules that your company has to follow.

WHAT'S THE BOTTOM line? Whatever the Financial Accounting Standards Board says it is. That also goes for anything above or below it, and for "generally accepted accounting principles" as well.

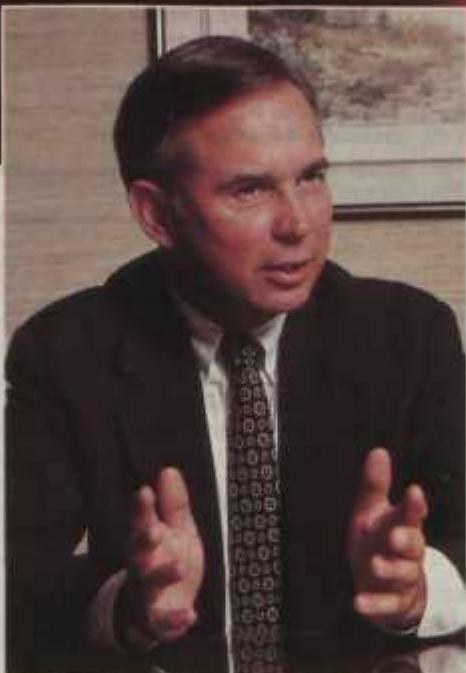
The board comprises seven individuals who meet weekly in Stamford, Conn. They establish standards for financial accounting and reporting. Although the FASB is technically a private organization without governmental authority, its decisions are nearly always accepted by the federal Securities and Exchange Commission, and SEC acceptance gives them the force of law.

Those decisions—which often deal with highly complex accounting rules—can have enormous real-world effects. A current example involves the acquisition of a troubled savings and loan by a healthy one.

The interplay of present accounting rules can cause the combined institution to show much higher income in the first few years after the merger than could be found if each half of the combination were considered separately.

That does not adequately reflect the economics of the transaction, especially when a shaky institution is involved, the board holds. It is therefore pondering a rules change to require the amortization of "goodwill" over a shorter period than the present maximum of 40 years, which would eliminate the paper earnings increase.

Unfortunately, such a change would



Chairman Donald J. Kirk came to the Financial Accounting Standards Board from a major accounting firm. Above, back to camera, he presides at a board meeting.

also eliminate one of the few inducements to these mergers, which are often shotgun weddings arranged by federal regulators trying to prevent major failures in the thrift industry. Thus, the FASB may find itself complicating the work of the Federal Savings and Loan Insurance Corporation while furthering the objectives of the SEC.

To minimize problems of this nature, the FASB maintains a Washington office and works closely with numerous federal agencies. Primary among them is the SEC, which has statutory authority under the Securities Act of 1933 and other laws to develop accounting and

reporting standards. Board members and the SEC commissioners meet regularly, and there is a continuing liaison between the two staffs.

The FASB is also working with the Internal Revenue Service on accounting standards for safe harbor leasing, with the Labor Department on the treatment of pension plans, with the bank regulatory agencies on thrift problems and with the Small Business Administration on simplification of rules for small enterprises. It interacts frequently with the General Accounting Office, key congressional committees, the Commerce Department and assorted regulatory agencies.

Prior to formation of the FASB in 1973, many of its functions were performed by the Accounting Principles Board of the American Institute for Certified Public Accountants. By the end of the 1960s, however, there was much dissatisfaction with this arrangement.

"Whether accurate or not," says Robert Van Riper, FASB's public relations counsel, "there was a widespread perception that the Accounting Principles Board was too dominated by the accounting profession and that its members were overly responsive to the interests of their clients."

Also, there was a feeling that a voluntary organization with a small staff couldn't keep up with the tide of cre-



PHOTO: ANDY LEVIN—BLACK STAR

ative accounting and financing in the go-go 1960s.

In 1971 the AICPA appointed a committee to study the problems and recommend a solution. It was headed by a former SEC commissioner, Francis M. Wheat. The FASB, founded by the AICPA and other groups of accounting and financial professionals, is the product of the Wheat committee's deliberations.

The FASB's members must have "knowledge of accounting, finance and business, and a concern for the public interest in matters of financial accounting and reporting." They must also sever all connections with firms or institutions they served before taking their full-time, salaried positions on the board.

BACKGROUNDS OF THE board's present members illustrate the desire of its founders to represent constituencies beyond the accounting profession itself.

Chairman Donald J. Kirk was formerly a partner in Price Waterhouse & Company; Vice Chairman Robert T. Sprouse was a professor of accounting at Stanford University; Frank E. Block was vice president of Bache, Halsey Stuart Shields, Inc.; John W. March was a senior partner of Arthur Andersen & Company; Robert W. Morgan was controller of Caterpillar Tractor Company; David Mosso was fiscal assistant secretary, U.S. Treasury; and Ralph E. Walters was director of professional

standards, Touche Ross International.

The organization's 45-member professional staff is headed by the director of research and technical activities, a post considered equal in importance to a board member's.

Board members are appointed to five-year terms (they may be reappointed once) by the Financial Accounting Foundation, which also receives contributions from corporations and accountants and approves the board's budget (\$8.6 million for 1982).

THE FOUNDATION'S 12 trustees are nominated by six sponsoring organizations: the American Accounting Association (academe), the American Institute of Certified Public Accountants, the Financial Analysis Federation (investors and investment advisers), the Financial Executives Institute (corporate officials), the National Association of Accountants (management accountants) and the Securities Industry Association (investment bankers and brokers). A trustee at large is selected by the major associations in the banking industry.

The foundation also appoints the 38-member Financial Accounting Standards Advisory Council, which advises the board on policy questions, project priorities, technical issues and developing problems.

Its membership is broadly representative of the preparers, auditors and users of financial information. Current chairman of the council is Paul Kolton, a former chairman of the American Stock Exchange.

FASB pronouncements are divided into three categories—statements of financial accounting standards, statements of concepts and interpretations. The FASB explains:

"Statements of financial accounting standards establish new standards or amend those previously issued. Statements of concepts provide a guide to the board in solving problems and enable those who use financial reports to better understand the context in which financial accounting standards are formulated. [They] do not establish new standards or require any change in existing accounting principles. Interpretations clarify, explain or elaborate on existing standards."

In addition to these three classifications, the FASB staff issues technical bulletins "to provide guidance on applying existing standards to certain financial accounting and reporting problems on a timely basis."

Standards established by the FASB's predecessors remain in effect until repealed or modified by the board.

In developing new standards, the board follows a complicated process intended to give all concerned a chance to have a say. The steps include:

- Appointing a task force of technical experts to make recommendations.
- Studying existing literature.
- Publishing an analysis of the issues involved and possible solutions.
- Holding public hearings.
- Distributing an "exposure draft" of the proposed statement for further public comment.

The board's deliberations are open to the public, as are the records of its proceedings.

One side effect of this elaborate regard for "due process" is that it takes the FASB a long time to act. According to a staff member, adoption of a simple, uncontroversial standard may require six to nine months, while more complicated matters can drag on for as long as three or four years.

One of the more controversial FASB actions of recent years is Statement 33. Published in 1979, it requires large companies to adjust parts of their annual reports for the effects of inflation.

SUCH ADJUSTMENT can dramatically deflate earnings and other statistics to which management likes to point with pride. Further, the index used to represent inflation—the consumer price index—is regarded as inaccurate by many economists.

As one corporation's annual report cautions: "This attempt to illustrate inflation's effect involves subjective judgments, assumptions and estimates to a much greater degree than in financial statements stated at historical costs and must be carefully viewed."

In recognition of the unusual problems it presents, the board is closely monitoring Statement 33 for a five-year period to see if changes are needed.

Other "significant and long-standing issues" that FASB says it is proud to have resolved include accounting for research and development costs, self-insured losses, catastrophe losses incurred by insurance companies, losses from expropriations of property by foreign governments, reporting by development-stage companies, accounting for leases, segment reporting, capitalization of interest cost, accounting for defined-benefit pension plans and foreign currency translation.

The philosophical basis for its decisions, the board says, "is the conviction that reported earnings should highlight differences in risk, not obscure them, and that similar situations should be accounted for in similar ways."

—Barry Crickmer

SPECIAL REPORT

The Office Computer

THAT extraterrestrial hero E.T., the star of the smashingly successful movie, introduced Collegeville Flag and Manufacturing, of Collegeville, Pa., to a new world of business.

The company, the nation's second largest producer of Halloween costumes—it also makes Santa Claus suits and American flags—had gotten along quite well with a manual inventory and billing system until it acquired the rights to produce E.T. costumes. Before E.T. came along, Snoopy was a top seller with annual sales of 300,000 or so and billing during the busy Halloween season would sometimes fall a month behind. E.T. sales quickly shot beyond a million, threatening to swamp the accounting and distribution departments.

So Collegeville Flag, a firm with annual sales in the \$10 million range and about 250 employees, decided to computerize. The small business system it installed "lets us keep up to date," says Clarence Huling, vice president in charge of the costume division. "Without the computer, our staff could never have handled the avalanche of E.T. costume orders. It would have been a real disaster."

The computer system, with a central memory, six terminals and custom software, managed the distribution of the astronomical number of outfits. Among the routine chores: accepting orders; printing warehouse selection tickets, shipping slips and invoices; and tracking accounts payable and receivable.

Across the country, many small businesses are turning to the computer. The spur has been twofold—easier-to-use technology and steeply dropping prices. In the past five years, prices of small office computers, most of which fit on a desk top, have dropped about 20 percent per year.

The most common desktop product, a garden-variety word processor, now costs less than \$2,000, as against more than \$25,000 a decade ago. Clearly written software (the instructions that guide computers through their tasks) has cut to as little as a day the time it



A new computer helped Collegeville Flag and Manufacturing cope with a million orders for E.T. costumes.

est rates make many experts think that the office computer boom is only beginning. Walter Mooney, general sales manager for Reliable Home Appliance, of Beltsville, Md., which recently added computers to its sales line, says, "This is the first year there are computer products to mass-merchandise." Sales, he says, are "phenomenal."

The potential market is vast. A report by David L. Babson and Company, investment counselors, states, "There are over 5 million businesses in the United States with fewer than 250 employees, and only 10 percent of them, at most, have their own computers." The Babson firm adds, "As the other 90 percent catch on [to office automation], sales should continue their all-out growth."

If you want to size up the extent of automation at an office, an easy way to do so is to count the number of small computers and word processors on desks, says Barbara Babcock, manager of office systems marketing at Data General, a manufacturer of small computers.

There are about 50 million white-collar workers, and only 4 percent have electronic tools, she says. Her estimate for 1985: computers on 15 percent of office desks.

Other predictions are similarly bullish. International Data Corporation, a Framingham, Mass., research and consulting firm, says that in 1981, for the first time, 1 million computer systems were shipped by U.S. manufacturers. In 1986 the number will reach 5.9 million and the growth of desktop computers will be "staggering," the firm says. Another prediction: SRI International, a research firm in Menlo Park, Calif., says that the number of what it calls "electronic work stations" will top the number of electric typewriters in offices by the end of the decade.

There is general agreement that a big percentage of office computers will be networked in the years ahead. That means that desktop computers, word processors, central data libraries and electronic printers will be linked by wire or cable. Information can then speed from machine to machine within

They are easier to use, and they are easier to pay for. And as many a business will testify, they really pay off.

By Michael Thoryn

takes a novice to be working productively. And small computers are now sturdy—they don't require special care in air-conditioned rooms, as they used to.

OFFICE PRODUCTIVITY, after years of snail-like gains, is making real strides, thanks to the computer. As computer manufacturers have honed their products, an increasing number of computer stores and computer trade marts have opened. Strong sales in the teeth of both a recession and high inter-

Boom: It's Just Beginning

one office building or between office and factory.

The reason for all these predictions of dazzling computer growth is simple. America's white-collar payroll totaled \$1 trillion last year. Companies believe the computer can give them more productivity for all those dollars.

RELATIVELY FEW companies are working hard on improving office productivity now, says the American Productivity Center in Houston, Tex., but those that are doing so have scored significant gains. Citing a recently completed study, C. Jackson Grayson, chairman of the center, says that "companies with in-place office productivity efforts show an average gain of 9.5 percent in effectiveness and efficiency."

The study, *White Collar Productivity: The National Challenge*, was sponsored by Steelcase, a manufacturer of office furniture systems. If procedures used by the 99 companies studied were universally applied, more than \$95 billion could be saved each year, Grayson says.

Reflecting the fact that office electronics is still concentrated on clerical and secretarial tasks, the companies said word processing, which eliminates retying, is the leading contributor to improved productivity. But 55 percent of the firms plan to extend their productivity programs to reach more workers. SRI International says this kind of effort will pay off by 1990 in 13 percent time savings for salesmen, 14 percent for managers and a significant 25 percent for professionals.

Boosting office workers' productivity is crucial because they comprise 53 percent of the work force today and may approach 65 percent as early as 1985. Although the number of office workers is gigantic, the capital investment per worker is still relatively small—\$2,500, compared with about \$23,000 per manufacturing job. Raising the investment per office worker by just \$1,000 would create a \$5 billion market for new equipment.

ALREADY Apple Computer, International Business Machines, Wang and many others make small computers for personal and business use that cost as little as \$2,000 for terminal, monitor and printer. Somewhat less powerful home computers sell for less than \$400, and discounts and rebates are common.

Small business people are buying computers with specific uses in mind, such as "a payroll system, an inventory

control system or a general ledger account system," says Garland P. Asher, director of financial planning at Tandy Corporation in Fort Worth, Tex. Tandy sells a limited line of computers at its 6,450 Radio Shack stores and a broader line at its 340 computer centers. It plans to open 10 new computer centers a month.

There has been a 50 percent per year growth in sales of software products. Analysts say that within an 18-month period the buyer of a desktop computer is likely to spend as much on software (which retails for \$50 to \$600) as on the purchase of the machine itself.

Niches are still being created. Portable computers did not exist a few years ago, but several companies—Osborne, Sony, Texas Instruments—offer capable machines that fit in a carrying case or briefcase.

Proper selection and installation of office electronics equipment, a difficult task in itself, does not assure higher productivity. Workers have to learn to use the equipment properly. But certainly the



Computers are now so small they can fit in a briefcase—or in a hand. With a proper hookup, one computer can "talk" to another via phone lines.

Wanted: A Voice in the Choice

The chief users of automated office equipment—secretaries, administrative assistants and word processor operators—are often ignored when the equipment is purchased, upgraded or replaced. And they don't like it.

As part of a study commissioned by the Verbatim Corporation, of Sunnyvale, Calif., a supplier of magnetic data storage products, 1,263 office workers were polled nationwide in companies of all sizes. Most say they and their immediate supervisors are seldom consulted by top management or department heads when equipment is selected, even though those doing the selection are unfamiliar with the operation of the electronic systems and the needs of the prime users.

Eighty-seven percent of respon-

dents voice a strong desire to participate in discussion groups regarding acquisition of new equipment, 78 percent want to attend sales presentations by equipment vendors, and 64 percent would like to pass along ideas to management via a suggestion box.

Among other worker views of technological change in the office:

- New office technologies like word processing may alter stereotypes of women's roles in the work force. Nearly two thirds insist that word processing is for both men and women.
- Nearly half stated that fewer demeaning tasks were expected of word processor operators than of secretaries, and almost one third saw more opportunities for career advancement in the newer field.



Computers by the millions will be sliding off American assembly lines like this one in the next few years.

technology is getting easier to understand.

For example, Kelly Services has developed a training program that teaches temporary workers basic word processing concepts in less than a day. The hiring firm does not pay the temporary's salary until the worker is up to speed on the equipment at the assigned workplace.

ALTHOUGH COMPUTERS are getting easier to understand, most senior executives started their careers before office automation took hold, and they tend to resist the machines. In particular, they don't like having to type in their own commands. In many cases, says Data General's Babcock, they will have to like it or lump it in the years ahead. "There will be industries where a computer will be an absolute must," she says.

Right now, computers are making a difference in a variety of companies.

In Compton, Calif., the American headquarters of Kubota Tractor Corporation stocks 1.5 million parts for its dealers across the country. Jim Hudson, national parts manager, says the firm's computer, using software designed by Informatics of Woodland Hills, Calif., runs an almost continuous comparison of inventory and sales to prevent overstocking or shortages. "Since we began using the system two years ago, our parts count has in-

creased 30 percent and sales even more," Hudson says. "Our staff level has held constant. We're able to manage and profit from our growth."

Charles T. Culpepper, a vice president at a large bank, RepublicBank, of Houston, took the trust department from a manual to an automated system of handling shareholder accounts. Now that the changeover—a two-year process—is complete, "we obtain information so much more quickly," Culpepper says. "We're updated on a daily basis, so our information is more accurate."

A small bank, Monadnock Bank in Jaffrey, N.H., uses a Monroe computer and software to prepare a minimum of two financial spreadsheets a year for more than 60 corporate clients. "It used to require four hours just to calculate and write in data on each of these spreadsheets by hand," says William R. Spaulding, senior commercial loan officer. "With the automated spreadsheet, I can complete a thorough financial review of a company within 20 minutes and have it printed out. This gives me more time to analyze the data and work with our clients."

Steve Ray, controller of Artercraft Engraving, a 35-employee photo engraving shop in Atlanta, Ga., is another business person impressed with how much time a computer can save. "What was taking three or four days with our pen-and-ink accounting system takes 25 minutes with our Lanier system," he says. Opting for a computer will save on payroll costs too. Ray says owners of growing companies "will eventually

have to make the decision: Do I keep hiring more employees or do I hire a computer system?"

REAL ESTATE salesperson Frank Slaton, who works for Loma Linda Realty in Loma Linda, Calif., had only a vague notion of the business uses of a personal computer when he bought one three years ago. Since then the computer has paid for itself many times over.

"A prospects file finally gave me control over all the loose scraps of paper containing important names and phone numbers," Slaton says. He adds that his computerized properties file allows him "to farm more properties with greater efficiency" and that he can provide buyers and sellers with professional fact sheets to aid in their evaluation of purchase alternatives.

Rotan Mosle, an investment banking and securities brokerage firm in Houston, says it has doubled its professional staff's productivity by moving to computer-based client planning.

David Little, a vice president, says 75 percent of staff time had been spent on routine calculations. Now 75 percent is "spent on the most productive aspect of the job—creative thinking, analysis and coming up with solutions," he says.

Whether the job is getting costumed extraterrestrials on the streets, as at Collegeville Flag, or plugging a number into a financial spreadsheet, more and more companies are electing to take the electronic route to solving business problems. And they are finding that it is the right route. □

Should Your Business Be Using Computers?

Deloitte Haskins & Sells, the international accounting firm, has prepared a checklist—condensed here—to help small business owners evaluate their need for a computer. The more boxes you check, the more likely it is that a small business computer would be an important management tool, the firm says.

Sales, Billing and Receivables

- The time between a sale and the billing of a customer is delayed.
- There are at least 100 active customers.
- The sales order and the customer's invoice are not prepared simultaneously.
- Salesmen's commissions must be accounted for.

Payroll

- The ending date of the pay period is different from the date of the paycheck.
- Overtime calculation is required.
- Certain salaried employees are

paid overtime based on hourly rates.

Inventory Control

- The merchandise inventory consists of more than 200 items.
- A bill-of-materials breakdown is required.

Accounts Payable

- There are at least 100 active vendors.
- More than 100 purchase orders are processed each month.
- More than 100 checks are prepared each month.

General Accounting

- An accounting department or branch is required.
- Consolidated financial statements are prepared.
- Monthly financial statements are prepared.
- More than 250 transactions are posted each month.



The Smart Sony

Introducing the Sony small business computer system. The Sony that shows the top rated programs that help you make smarter business decisions.

The Sony system that's easy enough for a doctor, lawyer or chief executive to learn to use. Yet smart enough for accounting, billing, inventory, word processing and endless other complex, profit oriented chores. It can even talk to other computers, big and small.

(For those who speak computer, the Sony Microcomputer runs CP/M® based programs, and many other important business oriented software customized for Sony, including the popular VisiCalc™.)

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From Pensions To Postal Rates

The Supreme Court is hearing many cases whose outcomes will help shape the way America does business.

By Tony Mauro

AS A RULE, women who reach retirement age outlive their male counterparts by about four years.

But can that actuarial truth justify stretching out pension payments to women by paying them less each month than men? The Supreme Court has agreed to answer that question in a case that could revolutionize the insurance industry and could, some say, bankrupt some pension plans.

The pension case is one of an unusually large number of cases affecting American business that the Supreme Court is considering in its current term. One of those cases, over the legality of home taping of television programs, has attracted wide public interest (see page 40).

In other business-related cases, the Court is expected to decide:

- How much control states can exercise over construction of nuclear power plants.
- What it takes to prove that a worker has been denied a promotion because of race.
- What exactly constitutes price-fixing under federal antitrust laws.

A report on these cases, and others that may have a broad impact, follows.

Pensions. Nathalie Norris of Phoenix realized one day that her life annuity from a state employees' deferred compensation program would amount to \$320 a month and that at her salary level men would receive \$350 a month. She sued, and two lower federal courts have agreed with her that the different payments constitute sex discrimination.

Those payments, like virtually all from privately run pension plans, are based on mortality tables that reflect the different life expectancies of men and women.

"Insurance always differentiates between things, but that doesn't make it discrimination," says John Endicott,

who is defending the Arizona insurance plan before the Court. "People who live in wood houses in fire areas sometimes pay more for fire insurance than people who live in stone houses in nonfire areas. But it's not because the insurance company is discriminating against wood houses."

If the Supreme Court agrees with the two lower federal courts, one of two things could happen, industry officials say.

• Payments to women could be raised to equal those to men. That, industry spokesmen say, would break some systems. By one estimate, if 100,000 males and 100,000 females are paid the same \$10,000 per person each year until all of them die, the women will have received \$41 million more than the men.

• Payments to women could be raised and those to men lowered to meet somewhere in the middle. "Men will essentially be subsidizing women, and men are going to start raising hell," Endicott says.

The Supreme Court ruled four years ago that it is illegal to require women and men to make unequal payments, based on differences in life expectancy, into an employer-operated pension fund. The case this year involves payments by private insurance firms. Whether the case is different enough to prompt a different ruling from the justices is a topic that will have the insurance industry on edge until the decision comes.

Nuclear power. The federal government traditionally has dominated the regulation of nuclear power, but in 1976 California enacted a virtual moratorium on nuclear plant construction. Five other states—Connecticut, Maine, Montana, Oregon and Vermont—have taken similar action. Pacific Gas & Electric Company's challenge of the California ban will be considered by the Court this term.

Edison Electric Institute, which rep-

resents the investor-owned utilities that own 69 of the 81 nuclear reactors currently licensed to operate, has urged the Court to strike down the California law, asserting that it "invites balkanized state regulation." The Atomic Industrial Forum, representing 600 firms in the field, says that if the California law is upheld, it will "encourage additional, burdensome and unnecessary state regulation of existing nuclear facilities."

Employment discrimination. Louis H. Aikens, a black postal worker, claimed that he was the victim of racial discrimination when he was passed over for promotions, even though blacks were being promoted all around him in the District of Columbia post office. A federal district judge ruled against Aikens, but an appeals court reinstated his case.

All Aikens needed to prove, the appeals court said, was that he was qualified, he was black, he was not promoted and whites were promoted to the positions he sought. Once he had proved those facts, the court held, the Postal Service was required to prove a negative—that it had not in fact discriminated against Aikens on racial grounds. There was no need to show that those who were promoted over Aikens were less qualified than he or that his employer intended to discriminate.

The Postal Service is fighting the appeals court's ruling, with the support of both the U.S. Chamber of Commerce and the AFL-CIO.

The Chamber's National Chamber Litigation Center, which intervenes in cases affecting the business community, told the Supreme Court that a ruling upholding Aikens would "encourage a virtual explosion in the number of discrimination suits."

Residence requirements. To stem rising unemployment and reduce racial friction, the mayor of Boston issued an executive order that any construction paid for with city or federal funds must



A decision that would require equal pension payments to both sexes could make men revolt, lawyer John Endicott says.

be performed by a work force made up of 50 percent Boston residents, 25 percent minorities and 10 percent women.

The Massachusetts Council of Construction Employers isn't fighting the requirement for minorities and women, but it has challenged the residence requirement as a violation of the Constitution.

The National Chamber Litigation Center told the Court that the Boston executive order and laws like it "serve only to disrupt the free trade among the states... and can only result in increased costs to the municipalities, and ultimately the taxpayers."

Antitrust. Three major plywood manufacturers—Weyerhaeuser Company, Willamette Industries and Georgia-Pacific Corporation—are fighting the verdict against them in a suit by wholesale plywood buyers who accused them of price-fixing. The manufacturers argue that parallel pricing actions—in this case, imposing uniform freight charges, regardless of where the plywood originated—do not add up to price-fixing unless there has been collusion. They deny that there is any evidence of collusion.

Also at issue is how damages should be figured. Lower courts held that the actual freight costs should be measured against the higher freight costs that were charged to the buyers. The manufacturers say that the Court should take into account other factors that kept the price for each manufac-

turer's plywood competitive. How the Supreme Court decides that issue could determine the course of the growing number of antitrust class-action suits.

Several other important antitrust cases are on the Supreme Court's docket. In one, the Court will decide if the Clayton Act bars individuals from serving as directors of banks while they are serving as directors of insurance companies. The case pits the Justice Department against BankAmerica Corporation, which is arguing that shared

directors have been accepted as legal for more than 60 years.

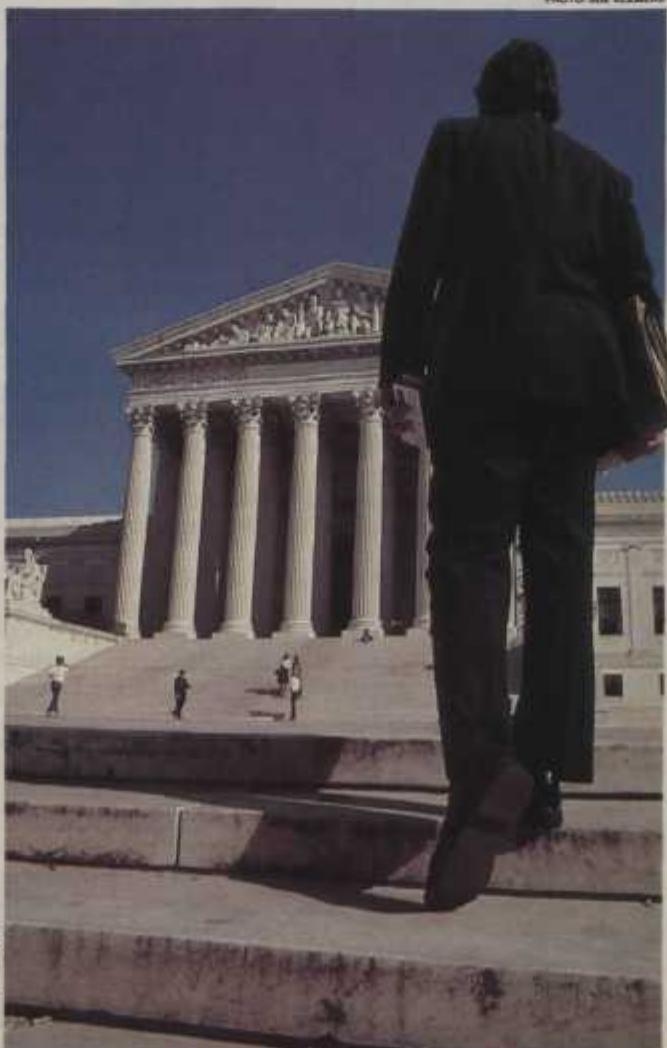
In another case, the Court will decide whether unions can sue a contractors' association under the federal antitrust laws. The unions charge that the association violated the law in a conspiracy to subvert collective bargaining with the unions.

The Court will also determine whether territorial differences in pricing can be permitted under the "meeting competition" defense. The case before

Court involves a Kentucky brewer who charged lower prices to his customers in Kentucky than to those in neighboring states.

Bankruptcy. The Bankruptcy Reform Act of 1978 put some of a debtor's possessions, such as his home, car and clothing, off limits to his creditors. A case before the Court raises this question: If a creditor acquired a lien on the debtor's household goods before the law took effect on Oct. 1, 1979, but the actual bankruptcy proceedings began after that date, are the debtor's goods exempt from the lien? An appeals court sided with the creditors.

Postal rates. The Court will be asked to decide between two conflicting methods of setting postal rates—one that favors first-class mail and another that favors other types of mail, particularly the magazines and newspapers that are mailed at second-class rates. Greeting-card publishers are pitted against magazine publishers in the dispute, which could cost the losing side millions of dollars in future postal costs. □



Attorneys are carrying more business cases than usual before the highest court.

Hollywood and the Home Videotapers

UNTIL FOUR years ago, John Pough owned a car wash. Now he is cleaning up in a different way—selling videotapes to some of the growing number of households that own videocassette recorders.

More than 3 million homes nationwide have VCRs, which can record and play back television programs and play prerecorded tapes, principally of movies. By 1990, some industry analysts estimate, VCRs will be in 40 million homes.

Pough, 42, has seen the boom develop from his vantage point in a small shopping center in Santa Ana, Calif. When he began to sell videotapes four years ago, it was a gamble. He started the business with a \$20,000 investment, one employee—himself—and tapes of a few hundred movies.

Now, with \$300,000 invested, he sells blank tapes and more than 2,000 titles from a store that has increased sixfold in size and employs five persons, three of them full time. And he says he has more than 80 competitors in his part of Southern California, besides. "I was the only one four years ago," Pough says.

Pough has turned a profit every month since he started, and he sees a bright future ahead—except for one annoying cloud on the horizon, in the vicinity of Washington.

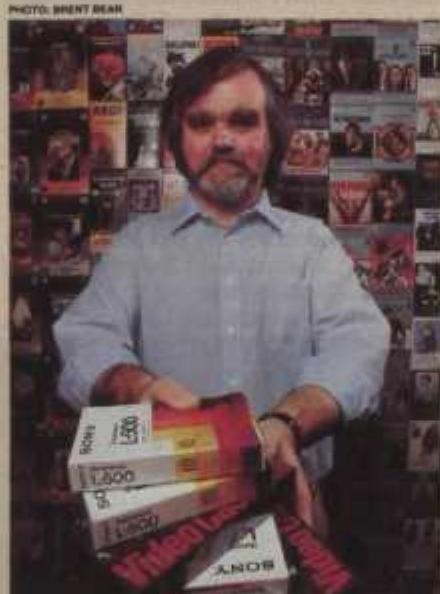
A case before the Supreme Court poses a threat to Pough's business and more than 5,000 retailers of VCR-related products nationwide. The Court's decision in the case (*Sony Corporation v. Universal City Studios*) probably won't put Pough out of business, but it may lead to reduced sales and lower profits.

The *Sony* case first burst into the headlines in October, 1981. The Ninth Circuit Court of Appeals—one step below the Supreme Court—ruled that home taping of television shows violated federal law protecting copyrights. The court held that the manufacturers, distributors and retailers of VCRs could be sued for copyright infringement.

That ruling was a victory for Sidney J. Sheinberg, president and chief executive officer of MCA, Inc., which owns Universal City Studios. Sheinberg contends that home videocassette recording is the only use of copyrighted movies and TV shows for which the copyright owners are not compensated.

A film's producer is paid, directly or indirectly, when his work is shown in theaters and on television and when it is sold as a prerecorded videocassette. But if a VCR owner records a televised movie on a blank tape and later shows the movie to 100 people at a party, the producer receives nothing.

"The biggest assets, the most important things we own, are our copyrights," Sheinberg says. "And we have a pact with the government to protect



When John Pough sells blank videotapes like the ones he's holding, is he harming the big movie producers?

them with the copyright law." Home taping without compensation, Sheinberg says, constitutes "an invasion of our rights."

Sheinberg fears that as home taping increases, it will have effects not yet evident. He says:

- With viewers taping while they are away or watching another channel, ratings will be skewed and viewing patterns disrupted. Commercials for turkey and cranberry sauce that pack a punch in November will fizzle if they are viewed the following spring.
- Even worse, since VCRs now allow speeding up the tape during commercials, viewers will skip the ads altogether. Advertisers will lose interest, network rates for commercials will drop, and movie sales to television will decrease.
- As viewers build libraries of taped

movies that they lend and swap, profits from theater showings and television syndication will fall.

If the Supreme Court agrees with Sheinberg's diagnosis, Congress may respond by adding a royalty fee to the price of each recorder and blank tape, to compensate the copyright owners. The fees would go into a fund that would be divided—probably by an existing agency, the Copyright Royalty Tribunal—among the copyright owners whose movies and shows were being copied onto the blank tapes.

"Royalties are a bad idea, but we support them because there is nothing better," Sheinberg says. "You have to deal in rough justice when there is no better protection."

TO JOHN POUGH, the California videotape dealer, royalties seem both rough and unjust. "Why should the Supreme Court or Congress force me to subsidize the movie industry?" he asks. "I don't want it, and my customers don't want it. I have yet to see any loss that they are suffering."

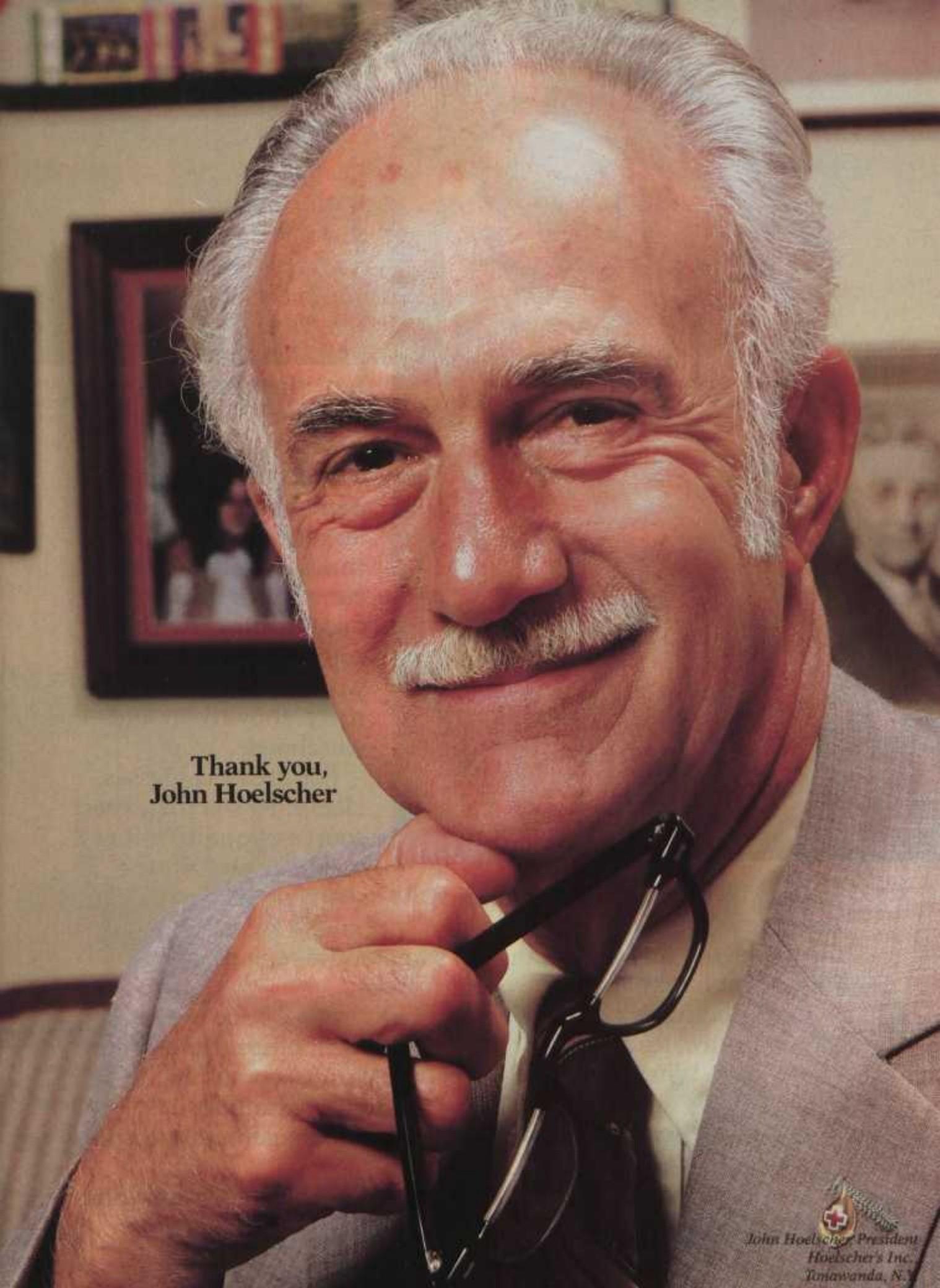
In fact, Pough thinks the studios are benefiting from the VCR boom by selling the prerecorded videocassettes, which cost \$80 or more. "Many people come in and say they have cable television, but they are not satisfied," he says. "They want the prerecorded cassettes of the movies they want to see."

Charles Ferris agrees with Pough and calls Sheinberg's arguments "boogus nonsense." Ferris, former chairman of the Federal Communications Commission, is the main lobbyist for a coalition of manufacturers and retailers of VCR-related equipment.

"The movie guys admit they are suffering no harm," Ferris says. "So they're following the old axiom: If you don't have the facts, argue the law. But they don't even have the law."

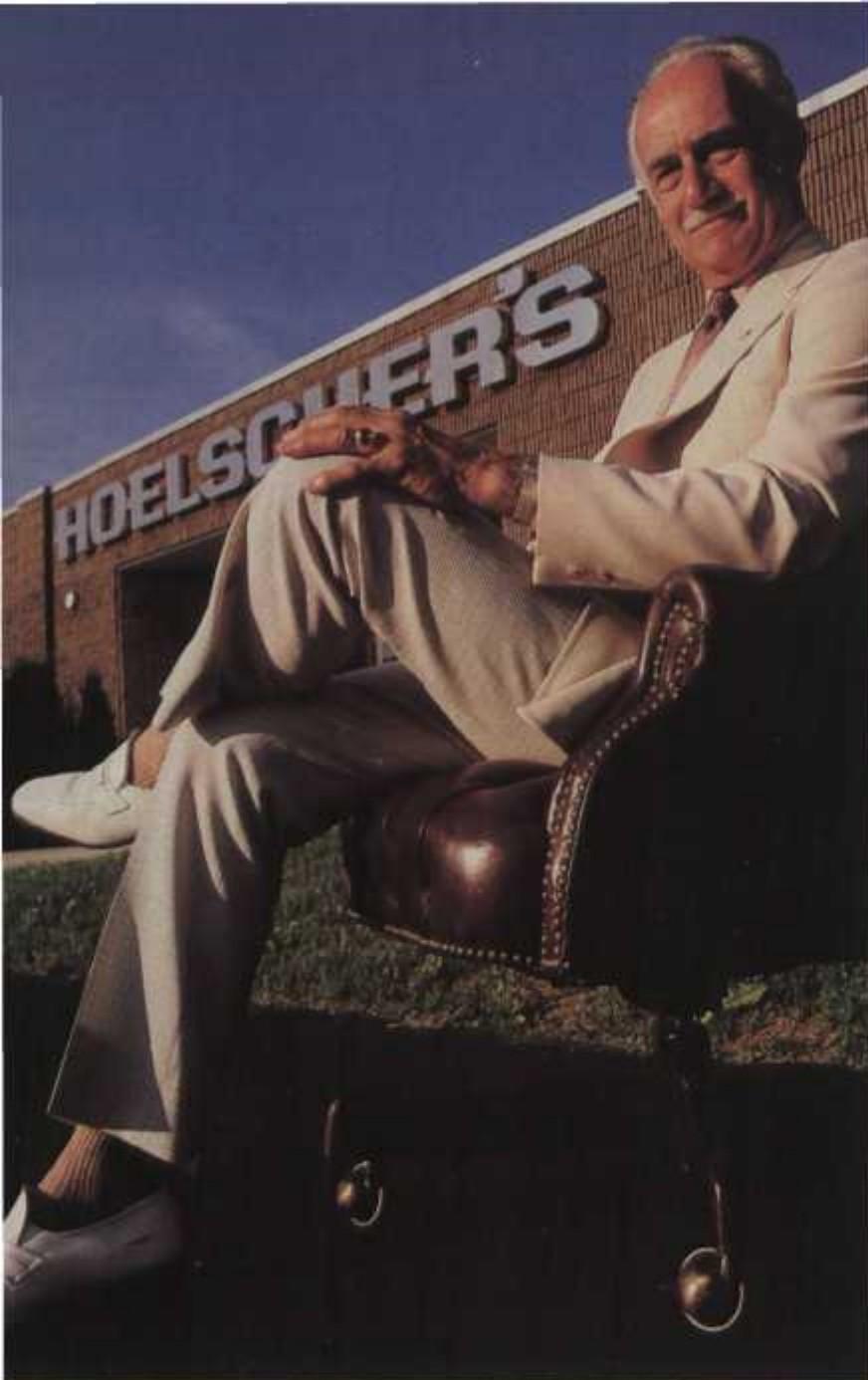
Ferris thinks there is "no constitutional issue at all, no property-taking" for the Supreme Court to decide. To him, VCR users are like all other television-watchers. "The producers get their payment when they license television stations to distribute their shows," he says. "There is no loss of copyright."

Whether or not the Supreme Court agrees with Ferris, its decision in the *Sony* case will have a lot to say about what Americans see on their television screens in the years ahead. □



**Thank you,
John Hoelscher**

John Hoelscher President
Hoelscher's Inc.
Tonawanda, N.Y.



John Hoelscher and his company's newest headquarters—a 40,000 sq. ft. showroom and warehouse complete with computerized inventory control.

Businesses throughout the country owe a lot to commercial stationers like John Hoelscher, president of Hoelscher's Inc., the firm his father and uncle founded in 1925.

Since then the company has expanded to larger quarters four times. Now it's western New York's leading office outfitters, with some fifty employees working in a new 40,000 sq. ft. showroom and warehouse.

For area businesses, Hoelscher's is the expert source of quality office products and profes-

sional office design. The company's 18 sales reps service local businesses regularly and its design specialists are responsible for the layout and furnishings in some of the region's most important banking and corporate offices.

John Hoelscher is a man who has always kept one eye cocked on the future, tracking new developments in office trends and technology. When a new business opportunity comes up, he's ready to take advantage of it. Right now, for example, he's moving the firm into micrographics and management information system supplies.

That's more than being just an aggressive businessman. John Hoelscher's a real pro in the field.



John Hoelscher has been a consistent Red Cross blood donor for 17 years. He has his 11 gallon pin; now he's working on his 12 gallon one!

Behind John Hoelscher, commercial stationer, is John Hoelscher the aeronautical engineer who spent his WW II years helping to test planes in the desert. That was after graduating from Notre Dame, class of '42, starting a tradition his sons Jack followed in '67 and Greg in '82.

("But everyone says '42 was the last *great* class.")

He's a man of enormous energy. "I like getting to work first thing in the morning, so everybody knows I'm there when they come in. Of course, sometimes I goof off and take the afternoon off to play golf." When he does, it's with the same total commitment he puts into his work and community activities. That's why he plays with a 14 handicap. "That's ok. But I'll get it back down to 12 by next week."



John was an original trustee of St. Gregory the Great's church. Now he helps Rev. Msgr. McNamara by working on the parish finance committee.



Hoelscher's Inc. has a family business tradition: John's children Jack, Jamie and Susan are already part of it.

Boorum and Pease is proud to be in business with John Hoelscher and the thousands of office outfitters and stationers like him. They are in a tough, demanding business, and often miss out on a lot of the credit that is due them.

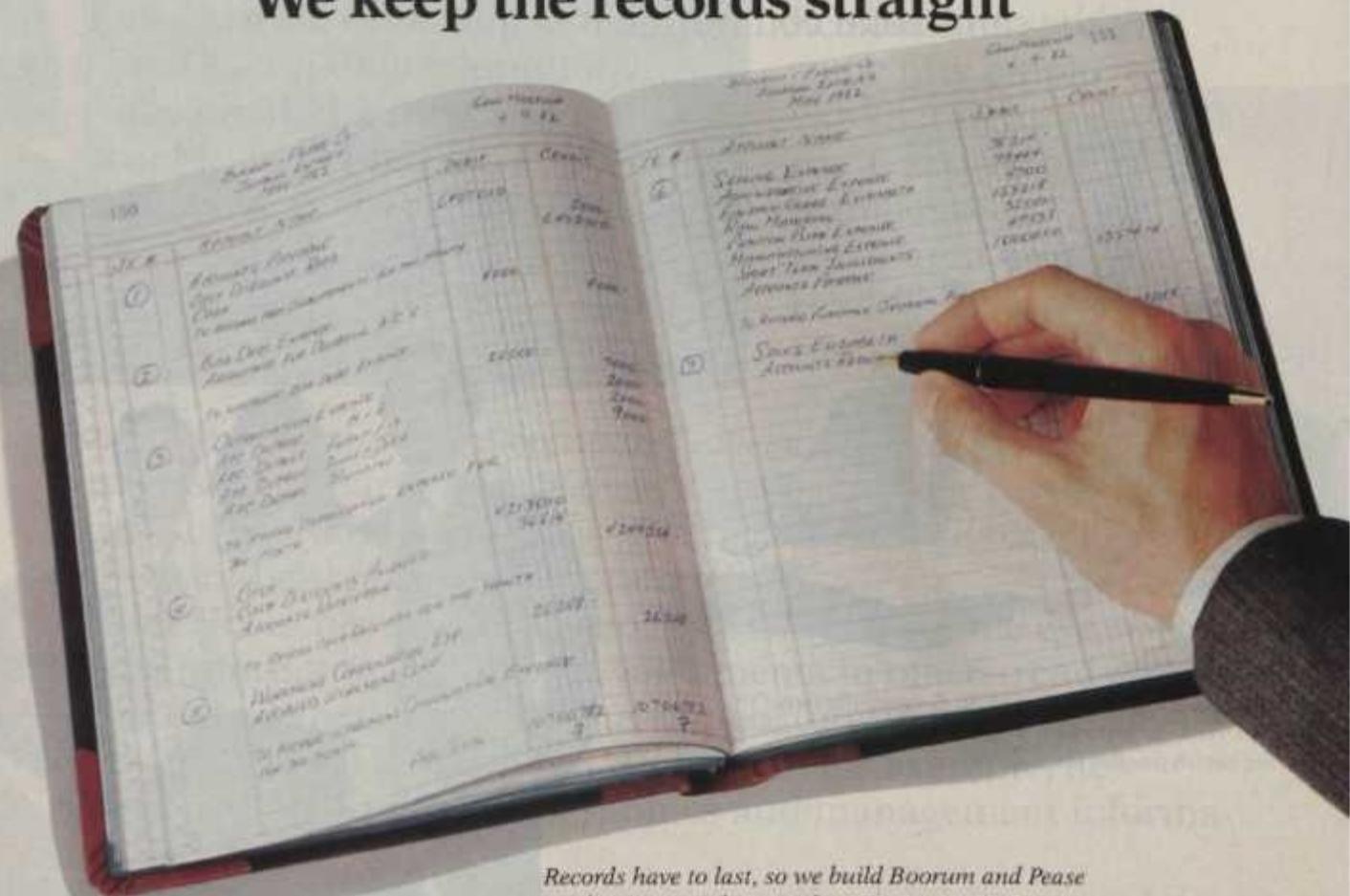
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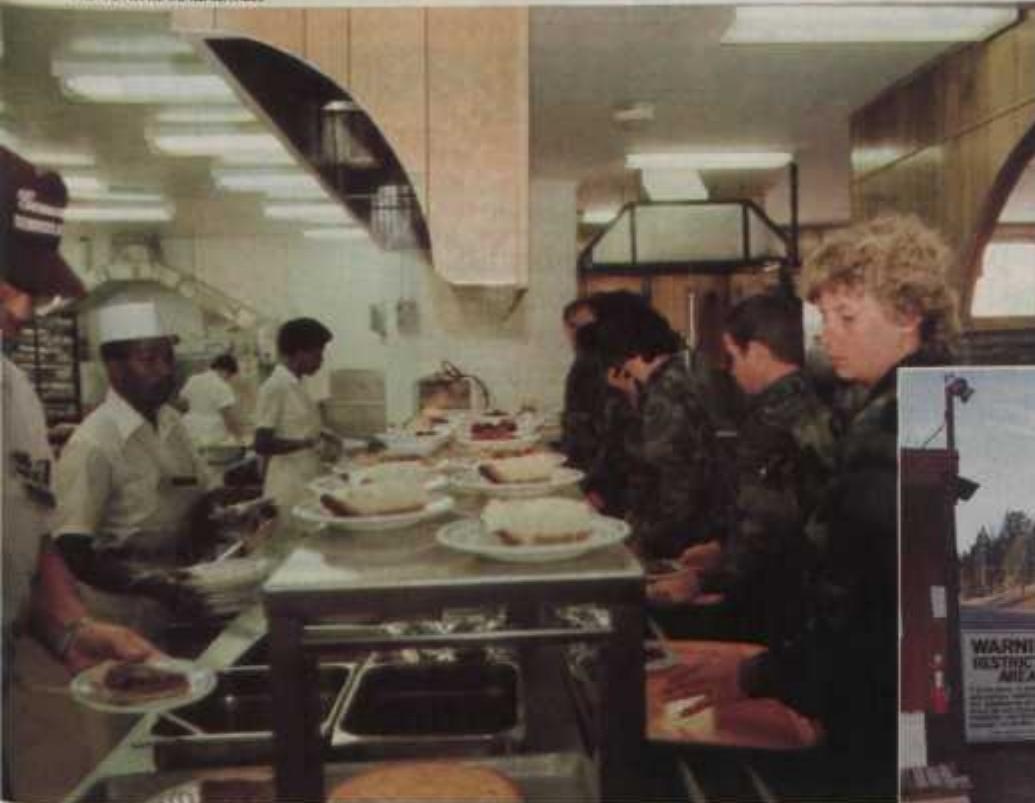


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Food service at Fort Gordon in Georgia (left) and security at a submarine base in Maine are two of many functions that the Defense Department has turned over to contractors.



Shrinking A Stretcher Of Dollars

BY TURNING OVER roughly half of the support services at Fort Gordon to private firms, the Army base's contracting officer is saving taxpayers more than \$6 million a year.

Contracting out of such functions as electronic equipment maintenance and laundering has freed 450 soldiers for critical military tasks. In addition, small firms in and around nearby Augusta, Ga., have received more than \$9 million yearly in extra business. That has added 200 jobs to the local civilian economy.

The topper is that some of the services are now better than they used to be, the Army says.

"Free enterprise and competition are the most effective way to ensure that goods and services the Defense Department needs are obtained most efficiently," says Lawrence J. Korb, assistant secretary of Defense for manpower, reserve affairs and logistics.

Over the past three years the Defense Department has held some 400 bidding competitions in which the cost of having jobs done by private firms was weighed against the cost of having them done by the military or by civilian departmental employees. Private firms won 6 out of 10 times, saving about \$70 million annually, Korb says. He says that though the other functions were kept in-house, the competitions spurred government efficiency, saving an additional \$14 million.

But many members of Congress apparently are unconvinced of the value of "going outside." Critics contend that contracting out has accelerated beyond the bounds of prudent administration and should be reviewed to determine its value.

In reporting out the Defense Department authorization bill for fiscal '83, the House Armed Services Committee proposed a one-year moratorium on

new contracting out by the Pentagon and recommended adding 17,000 civil service personnel for a variety of tasks frequently performed by private contractors. It also recommended deleting 440 positions in the Army and Navy for contract administration.

AS EVENTUALLY passed by the House and Senate, the bill is not quite so grim for advocates of contracting out, but it is far from good news. With certain exceptions, the bill imposes a six-month moratorium—ending on April 1—on cost comparison studies that automatically precede new contracts. (The exceptions: custodial services, garbage collection, grounds maintenance, food service and preparation, and base transportation services.)

However, if such cost studies—they can take months—had been completed by the start of the moratorium, contracts could be awarded. And although the

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Joseph M. Farley, President

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bill calls for hiring the 17,000 personnel, it does not delete the 440 contract administrators.

In addition, the bill prohibits for one year conversion of firefighting and security services at military installations to the private sector. (Contracts for such services in existence by October 1 would not be affected.)

House and Senate conferees, in another development, also agreed to amend a military pay bill by adopting guidelines that would, for national defense reasons, permanently ban contracting out in certain cases. And they agreed to make contractors pay for future cost studies.

How does the Pentagon react to all this?

Defense officials estimate that the firefighting-security prohibition will cost taxpayers \$50 million annually. (An aide to Sen. George Mitchell (D-Maine), a sponsor of the prohibition, labels the estimate "baseless.")

As for the cost study moratorium, Korb says that private business will be deprived of legitimate opportunities, with consequent heavy damage to "our most effective program to improve efficiency."

In the next session of Congress, foes of contracting out can be expected to try to further close the limited opening for private Defense Department contracts left by this Congress.

For some years, there has been a trend toward efforts to reduce federal reliance on the private sector. "Each year the amendments aimed at contracting out get more detailed," says a congressional counsel.

Business as well as government procurement officials note that the trend runs contrary to longstanding federal policy.

President Eisenhower issued a directive in 1955 stating, in essence, that the federal government should not provide services that put it in competition with private industry.

THE DIRECTIVE THAT now governs contracting out, Circular A-76, was issued in 1979 by the Office of Management and Budget and follows the same theme. It requires government agencies to compare the cost of products or services in-house versus awarding bids to private firms. But it also requires that existing government activities remain in-house unless contracting out would result in a saving of at least 10 percent.

Defense is by no means the only de-

partment in which tax dollars can be saved by turning to private competitive bidding. Federal employees perform some 11,000 commercial or industrial activities that private firms could do, according to a General Accounting Office report. Keeping them in-house is costing taxpayers billions.

"Private firms are becoming more aware of the extent to which they face unfair competition from government sources," says James Hostetler, a Washington attorney who represents businesses that want greater access to government contracts. Hostetler is a member of the Small Business Council of the U.S. Chamber of Commerce and of the Chamber's Council on Procurement Policy.

Most federal government activities

PHOTO: U.S. ARMY



Sometimes bidding out government services is, at best, impractical. Here, American GIs in France during World War II perform one of the most basic chores: KP.

have never been subjected to cost studies. An OMB study found that if they were, taxpayers could save \$1 billion annually.

Besides being more economical—it can reduce an activity's cost by as much as 50 percent sometimes—contracting out provides federal managers with greater flexibility, its supporters argue.

Contracts can be awarded, terminated or modified as needed, whereas civil service regulations usually make government payroll reductions extremely difficult, even after a project has been completed.

OMB is working on a directive on streamlining procedures for contracting out. Cost studies showed "some inequities and cumbersome procedures," says Edwin L. Harper, assistant to the President for policy development. "We expect to adopt many of OMB's recommended changes."

An early draft proposed that functions that lend themselves to private sector performance and employ fewer

than 25 people could simply be turned over to private bidders without cost comparisons. That upset federal employee union leaders, lending impetus to the moratorium drive.

Nicholas Nolan, national secretary-treasurer of the American Federation of Government Employees, says that, as a general rule, government does not need to turn to private contractors because it is just as cost-effective for the government to do the work.

A MAJOR PROVISION of Circular A-76 addresses federal employee unions' fears about job security. If federal workers are laid off because an activity has been contracted out, the private contractor must give them first crack at any jobs that are available and for which they are qualified. About 85 percent of displaced qualified federal employees transfer to contractor employment, according to OMB.

Detractors of contracting out frequently cite potential disruption and deterioration of service resulting from strikes in the private sector.

"Do we want our military bases to be susceptible to security guard and firefighter strikes?" asks Sen. Mitchell.

He concedes that no "major problem" of this type has occurred at 34 bases where firefighting and security services are now provided by private firms, but says trouble would be more likely if the 95 additional installations that were considering making such a change actually made it.

Sen. Roger W. Jepsen (R-Iowa) argues, however, that the Mitchell-endorsed prohibition on such conversions will prevent the Pentagon from analyzing base security functions on a case-by-case basis. Adds the Pentagon's Korb, "Only when military departments are satisfied that contracting out would not hurt military capabilities do we proceed with free enterprise competition."

OMB Director David A. Stockman says that, as a result of the new restrictions on contracting out, the Pentagon will have to absorb extra expenses at a time when cost-efficiency is critical.

There would be a lot of irony in that. Members of Congress have been vocal advocates of taking whatever measures are necessary to curb waste. Yet they have been resisting steps that would save tax dollars through greater reliance on free enterprise.

"Somebody is having a difficult time keeping their priorities straight," says a high-ranking Pentagon official. □

—Tony Velacci

How To Motivate Your Employees

Here is a primer—on hiring, on promoting, on paying and on listening—for the small business that wants to improve productivity.

By John F. Collins



ILLUSTRATION: WILLIAM COULTER

IN THE DAILY CRUSH of problems and challenges, many owners and operators of small businesses deal with personnel matters in terms of the immediate task at hand. They believe that human resources management is the concern of big companies with specialists and budgets for such activities.

The fact is, however, that sufficient attention to employee motivation and involvement can be a major factor in helping small business achieve the productivity increases necessary for improved profits. Small businesses may have to make some adjustments in present attitudes to receive the rewards possible from proper management of human resources.

Some fundamental concepts should be understood from the outset.

To be motivated and productive, employees must feel a high degree of interest in their jobs and derive a large amount of satisfaction from them. Motivated and productive employees must believe that their salaries, benefits, working conditions and job security are reasonable and that they are being treated fairly by their immediate managers and by management generally.

Beyond that, if employees are to be maximally productive, they must be given the opportunity to work in an atmosphere in which all employees are conscientious and cooperative.

The function of human resources management is the implementation of these concepts through employment decisions, wage and salary administration, management training and communications.

Here are specifics in each area for improving productivity through improved personnel policies:

Employment. Recruitment and selection of employees is the most important factor in building and maintaining a productive work force. A company must treat employees fairly, provide reasonable compensation and benefits and

develop a positive work atmosphere if it is to achieve a reputation as an excellent place to work and thereby attract above-average applicants. In too many instances, recruitment and selection of employees is not recognized as an important function, and the individual responsible for hiring does not have the necessary knowledge and experience.

To provide sufficient time for the recruitment process, personnel needs should be anticipated as far in advance as possible. Selection mistakes occur under pressure to fill openings quickly and through failure to identify the key personal and technical qualifications for successful job performance.

Except for positions calling for highly specialized knowledge or skills, an applicant's personal characteristics are more important than his technical qualifications. Such characteristics are positive attitude, conscientiousness and interest in the work to be performed.

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selected, an appropriate amount of time and effort should be devoted to training the newly hired employees so that they become productive as soon as possible. Managers should show a continuing interest in new employees' progress and encourage them to ask questions. The first few weeks of employment are critical, and frequent communication with new employees is essential.

Management training. When an opening develops for a department manager, the employee with the best technical qualifications is generally promoted. The employee selected might not have the necessary interest and aptitude for becoming an effective manager but invariably will accept the promotion. Newly appointed managers often do too much work themselves. They tend not to delegate effectively and to interfere in their employees' work.

Employees should be given a general outline of how their work is to be performed, should not be oversupervised and should have the opportunity to solve most of their work-related problems.

Newly appointed managers need specialized training in many areas: the nature of management responsibilities and management style; keys to employee motivation and productivity; employee selection, orientation and training; salary administration and performance appraisal; employee communication; administration of personnel policies and practices; and handling of employee problems.

Wage and salary administration. The primary purpose of an effective wage and salary program is attracting and retaining the type and caliber of employee required to attain the company's goals rather than motivating and increasing employee productivity. Such a program is essential to ensure that employees are treated fairly in salary matters. Managers should understand the company's salary objectives and policies so that they can answer employees' questions about salaries.

Salary ranges should be established for positions based on their duties and responsibilities, their relative value in the salary market and salaries paid elsewhere for similar positions. Salaries should be administered on a rate-range basis. The salary structure should be reviewed annually and adjusted according to external trends and the company's experience in attracting and retaining employees.

Flexibility is one of the most significant aspects of an effective wage and salary program. Employees should move through their respective rate ranges based on performance and potential for promotion.

Management should review employees for salary increases throughout the

year rather than reviewing all employees at the same time each year.

Generally, employees should be reviewed for salary increases on an annual basis after their initial salary review. Employees whose performance is not satisfactory should not be granted a salary increase until their performance improves. Employees whose performance is outstanding should be rewarded by granting them relatively larger salary increases at shorter than normal intervals. Employees must understand that salary increases are granted for performance, not the passage of time.

Employees are motivated by the satisfaction they get from doing their work and from improving their performance and skills. Managers are responsible for getting work done by employees, for motivating them and for helping them improve their performance. The necessity for a well-designed performance appraisal plan is clear. It serves as a basis for evaluating and rewarding employee performance, for improving performance and for assisting employee development.

Essential elements of the plan include self-appraisal by the employee, appraisal of the employee's performance by the manager and joint development of plans to improve that performance in the future.

Communication. Effective communication between managers and employees is essential for employee motivation. The manager's attitude, feedback and listening are essential for good communication. The manager must be willing to negotiate rather than give a directive and let employees discuss and modify messages so that they are more understandable and acceptable. Employees who work in a receptive, positive work environment are more likely to listen.

Information about the company, its history, operating philosophy, employment policies and practices, and employee benefits should be communicated in an employee manual that is concise and factual and written in a positive tone. Employee benefits and employment policies and practices should be formulated carefully to meet their objectives, be uncomplicated and be administered consistently so that employees know they are being treated fairly.

For the human resources program to be effective, a company's human resources specialist must have the knowledge and ability to gain the trust and respect of its executives and managers. The specialist's primary responsibility is to ensure that employees are treated fairly and consistently and to assist executives and managers in handling their people responsibilities. □

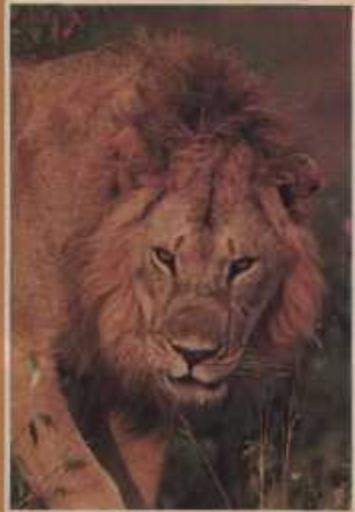


To order reprints of this article, see page 77.

SUDAN



President Gaafar Nimeiri



SUDAN

Acknowledgements

This special section was produced with the guidance and assistance of His Excellency Omar Seikh Eissa (below right), ambassador to the United States from the Democratic Republic of the Sudan, and Mamoun O. Medani (below left), the Embassy of Sudan's economic counselor and the head of its economic office. Their dedication and help in preparing and providing the text of this section are greatly appreciated.



Photo Credits

Photos for this section were provided by the Embassy of Sudan, the Ministry of Internal Affairs (Information and Culture), the Tourism and Hotels Corporation, Tom Brakefield, B. Campbell/Sygma, and the American Petroleum Institute.

An Immense Small Country



AN IMMENSE small country—that might be an appropriate way to describe Sudan if its land area and economic potential were measured against its present economic performance.

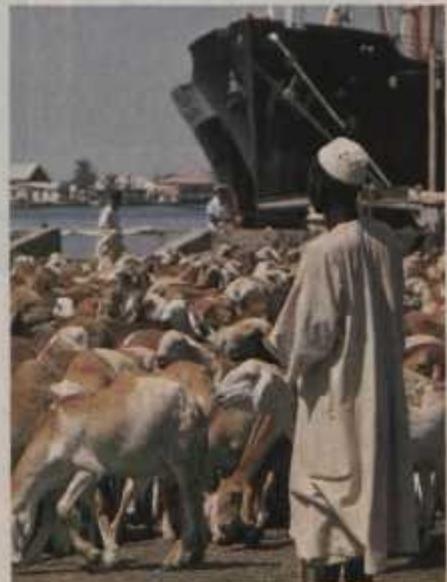
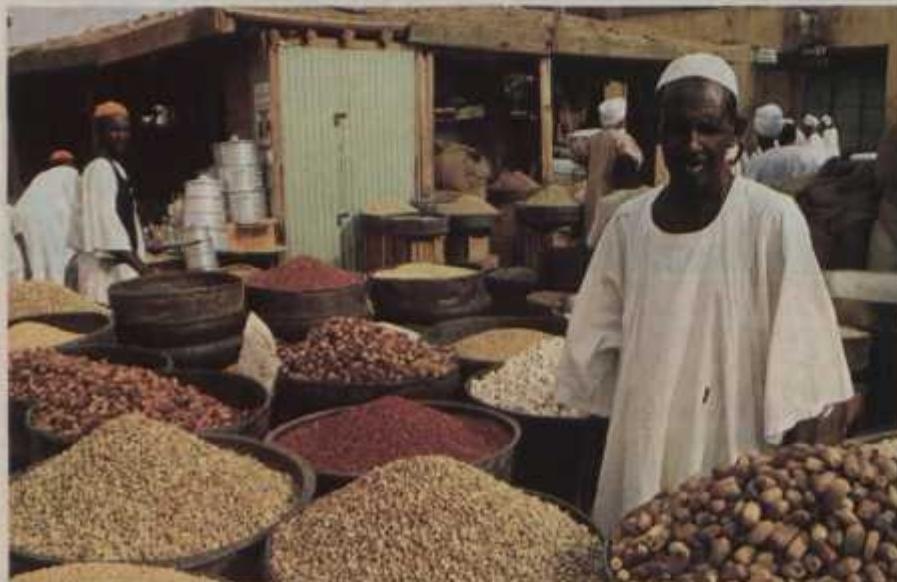
The Democratic Republic of Sudan embraces nearly 1 million square miles. It is the largest country in Africa and more than one fourth the size of the United States; all of the member countries of the European Economic Community could fit within its borders, with plenty of room to spare.

Sudan is one of the few countries in the world that has a sizable amount of unused land, a highly favorable land-to-population ratio, and enormous animal and forest resources, as well as untapped reserves of game hunting, fishing, archaeological remains and tribal folklore. It has now become a commonplace among economists to say that Sudan is potentially a rich country.

At present, although the country has foreign exchange shortages and other transient economic difficulties, it is anticipated that with proper management and foreign economic assistance, Sudan will be able to overcome these stringencies and proceed toward a strong and healthy economy.

Availability of Land

Agriculture is the dominant sector of the national economy, contributing nearly 40 percent of the gross domestic product and more than 90 percent of export



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earnings. Eighty percent of the total population of Sudan relies on agriculture for a living. Of a total land area of 600 million acres, some 220 million are classified as agricultural land, 200 million as forests and 180 million as uncultivable land. Nonetheless, only 17 million acres are estimated to be under cultivation. Agriculture in Sudan is composed of four distinct subsectors:

- modern irrigated farms;
- mechanized rainfed farming;
- traditional rainfed farming;
- livestock.

Irrigated Farms

Modern irrigation by pumps began at the turn of the century as a progressive substitute for traditional flood irrigation and bucket and water-wheel techniques. Over the last 50 years, Sudan has developed over 4 million acres of irrigated land. This area includes such large state farms in northern Sudan as the Gezira-Managil Project (2.2 million acres), New Halfa (400,000 acres), Rahad (150,000 acres), and 200,000 acres in the Savannah Belt. It also includes small private pumping

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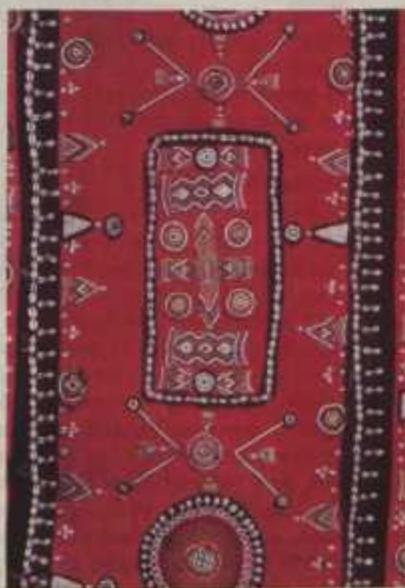
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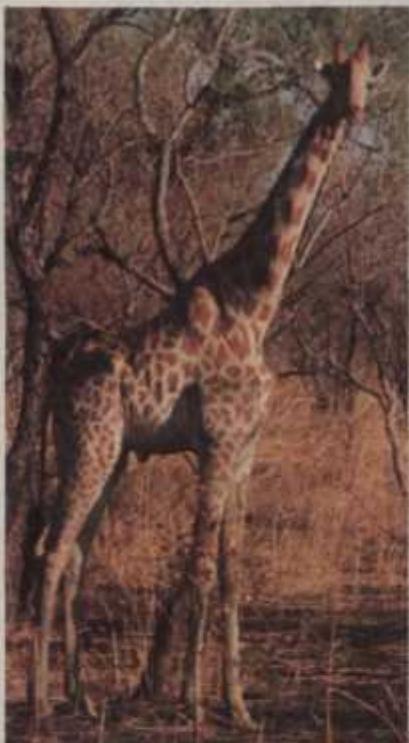
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projects totaling 1.4 million acres.

This sector accounts for 20 percent of the cultivated area. It uses fairly modern production technology to produce such valuable crops as cotton, wheat, sugar cane, groundnuts, fruits and vegetables. According to World Bank reports, the 4 million acres could be increased with proper investments and better management to 5 million acres using existing allocations of Nile River water. Further, 2 million acres could be irrigated with ground water and from new conservation methods, and another 1 million could be irrigated with the introduction of more efficient water management. Thus, total irrigated area could be doubled to 8 million acres.

Mechanized Farming

Over the past 20 years, large-scale mechanized rainfed farming, based principally on sorghum production, has been developed on 5.6 million acres of the Savannah Clay Plains. It has been a substantial achievement. The sector comprises nearly two thirds of the total cultivated area producing sorghum, millet, sesame and groundnuts and depends almost entirely on human labor and hand tools with very little modern machinery. Considerable employment has been generated, albeit of a seasonal basis, and exports have contributed to foreign exchange earnings. The government's aim is to obtain the benefits of horizontal

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participation by the private sector and livestock integration.

Traditional Farming

Traditional agriculture is based on using hand tools, without modern machinery. Crop yields tend to be relatively low because of poor soil preparation and uncertain rainfall. In southern Sudan, where rainfall is higher, there is much more scope for improvement and a wider range of crops can be grown. The sector produces and exports large quantities of groundnuts, sesame, gum arabic and kerkadeh from the Western Savannah, making a valuable contribution to foreign exchange. The government's aim is to develop transportation and communication systems and establish development centers that would provide needed inputs.

Livestock

Sudan is rich in animal resources. Half the farm families in the country own some livestock, and the country's over 16 million cattle, 3 million camels, 18 million sheep and 14 million goats represent a great potential for development. Sudan's livestock resources are overwhelmingly concentrated in the traditional sector, with more than 70 percent

of the stock being produced by nomadic pastoralists. The government's aim is to create more grazing areas and improve land management.

Investments in milk production are also important. Milk production is estimated at 1 million tons per year, most of which is produced and consumed in the local areas. There is great scope for development, since the 20,000 tons of whole milk equivalent in powder form imported annually do not meet local demand.

According to recent reports, the estimated 3 percent annual growth rate of livestock could be doubled and meat production could be increased eightfold by planned livestock development programs. One common feature of all four subsectors is that none of them is fully subsistence-oriented, although the degree of commercial orientation does vary from nearly 100 percent in mechanized rainfed crop production to less than 50 percent in traditional rainfed cultivation.

Land-to-Population Ratio

The country has one of the most favorable land-to-population ratios in the world, with about 13 acres of cultivable area per person, compared with the world average of only 3 acres.

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A 5 Percent Growth Rate

The decade of the '70s was a difficult one for Sudanese agriculture. A prolonged drought in the sub-Saharan countries caused regional imbalances in food production, aggravated by international inflation and sharp rises in prices of fuel and agriculture inputs. Despite these circumstances, the sector maintained a 5 percent annual growth rate, which is higher than the rate of increase in the country's population. Also, the irrigated land increased by 1.5 million acres, and the country's crop production by 80 percent. This performance demonstrates the basic strength of the agricultural sector, which holds promise of outstanding results.

With Sudanese agricultural potential and American technology, management and science, great results could be achieved. Foreign investment is needed to help correct the imbalances of the sector. There is a great need for storage facilities. The lack of adequate transport, marketing services and market information systems are also considered great constraints on the sector. An adequate railway network is a top priority. The present high cost of road transportation



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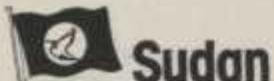
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leaves no incentives for producers, especially in remote areas, to produce any marketable surpluses.

Tourism

Sudan's tourism potential is unquestionable. The country possesses untapped reserves of game hunting, beautiful beaches and a vast array of attractions that combine the Middle East and Africa. For example, tourists will find a full range of Africa's wildlife represented abundantly within the 2,470 square miles of Dinder National Park. Lions, leopards, buffalo and giraffes, etc., can be seen at close range, and photographic safaris are organized from Khartoum.

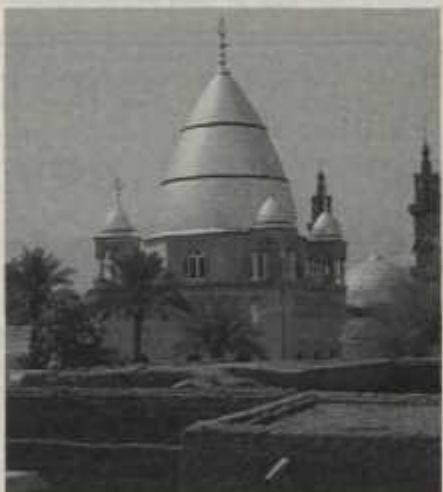
Tribal folk rites and dances are performed on various occasions. The country abounds in archaeological sites, temples, churches, fortresses and palaces, some dating back to 4000 B.C. and the ancient Egyptian kingdoms.

In the districts of Merwoe and Shindi can be found the remains of the Napata kingdom, and ancient monuments of the Meroitic kingdom, dating from 550 B.C. to 300 A.D. There are marine gardens, fishing, coral reefs and swimming on the Red Sea beaches. Opportunities for foreign investment are numerous, and the 80,000 tourists that visited Sudan in 1981 (compared with 22,000 in 1971) could be doubled in a short period of time.

Investment Climate

There is great opportunity for international cooperation in Sudan. The nation's investment law emphasizes a large number of incentives, such as reducing taxes for up to 15 years, facilitating land acquisition, giving customs exemptions and favorable electricity and freight rates, and providing for full repatriation of capital in the same currency in which the original investment was remitted to Sudan.

Equipment and services may be capitalized, and the Bank of Sudan approves the remittance of all revenue—profits, dividends, interest and royalties. According to the law, there is no requirement



that Sudanese capital, even a token percentage, be associated with a foreign undertaking, nor are there laws or regulations in force that create any distinction between foreign-owned and domestically owned firms.

Embassy Assistance

The Embassy of the Democratic Republic of Sudan and its economic office, 2210 Massachusetts Avenue, Washington, D.C. 20008, (202) 466-6280, is ready to provide you with needed economic, commercial and investment information and to organize and facilitate your contacts with the concerned authorities in Sudan.

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Should Interest, Dividend Tax Withholding Be Repealed?

Arguments for Repeal: Congress acted too hastily in passing legislation to require withholding of 10 percent of dividends and interest for federal taxes. Repeal bills now pending on Capitol Hill recognize this mistake. The withholding requirement, due to take effect next July 1, is already generating a whole new complex of regulations and associated paper work at a time when the nation is demanding a reduction in both. Withholding is particularly confusing to the elderly, and the provision allowing them to file for an exemption if they have low tax liability actually adds to the confusion. As Peat, Marwick, Mitchell & Company, the accounting firm, notes: "Exemption forms will have to be filed and updated when required. Individuals who act as trustees... will have to determine what exemption forms need to be filed and maintain withholding records."

Arguments Against Repeal: In enacting the law, Congress faced up to the reality that billions of dollars in interest and dividends are not reported on federal income tax forms and that recipients of those funds are escaping significant tax obligations. Wage earners are subject to withholding up to the full amount of their tax liability on each paycheck, and deducting from interest and dividends at a 10 percent level is a reasonable approach to enforcing payment of taxes on those sources of income.

Requiring withholding on wages but not on interest and dividends discriminates against workers. And provisions have been made in the withholding law to exempt low-income individuals whose deductions would exceed their tax liability. That way, they will not have badly needed income diverted to Washington and then have to recover it via a tax refund.

Verdict: Congressional Veto Over Regulators

NATION'S BUSINESS readers responding to the question posed in "Where I Stand" in October expressed a preference by a margin of almost 3 to 1 for congressional veto authority over actions of regulatory agencies. Readers supported the argument that such agencies too often assume greater powers than Congress meant to give them and that unwarranted regulations are capable of causing serious harm to many businesses if the agencies are not subject to outside restraint.

Results of the monthly polls on major public issues are brought to the attention of key decision makers in the White House, Congress and the agencies.

This Is Where I Stand

Should Interest, Dividend Tax Withholding Be Repealed?

YES

NO

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CEO's Maxim: High Visibility

Edwin Colodny believes in giving personal attention to his airline's customers and employees.

By Grover Heiman



AS A YOUNGSTER, Edwin I. Colodny delivered groceries. When he was in high school, he waited on tables at Adirondacks resorts during summer vacations. And he was a short-order cook while at Harvard Law School. In every one of those jobs, he learned that customers "appreciate some form of attentiveness." As chairman, president and chief executive officer of USAir, he's still convinced that personal attention is important.

"Management must be visible," he says, "and that means you cannot sit in an office and just shuffle papers around. You have to be out dealing with your personnel and your customers and know what's going on."

Colodny is determined that USAir will play second fiddle to no other airline—and yet Colodny himself might have wound up playing second fiddle in a symphony orchestra if he had not made a sharp turn in his career plans while he was still in college.

A student of the violin since the age of 8, Colodny decided against a career in music after three years at the Eastman School of Music at the University of Rochester. "It became apparent to me," he says, "that I was not going to be a violin virtuoso, but that if I just wanted to be one of the pack, I could make a living. So I took my major in government and applied to Harvard Law School."

Harvard accepted him and Colodny put his violin away. He has not tucked the instrument under his chin in many years, although he does listen to a great deal of music.

He listens most, however, to jet airliners, employees, customers—and the cash register. While some of his competitors fight for survival, USAir is more than holding its own.

Over the years, USAir has posted growth rates that exceed the industry average. Today it ranks seventh among domestic scheduled airlines in passengers carried—an estimated 14 million this year—and 10th in the world. Sales in 1981 amounted to \$1.25 billion, and profits reached \$58.5 million, giving USAir the best operating margin among domestic air carriers.

USAir began in the 1930s as All American Aviation Company. It carried no passengers at first. Instead, the airline flew air mail on a 1,040-mile route over treacherous mountains in Pennsylvania and West Virginia.

The region lacked adequate airports, and to reach isolated communities in the hollows, the company developed a unique air-to-ground method for picking up the outgoing mail.

Flying a Stinson single-engine mono-

plane, the All American pilot dropped a mail-filled pouch to a local postmaster. Then he let out a cable with a hook on the end. He flew low over the pickup point, where the postmaster had hung the outgoing mail pouch on a second cable, strung between two poles. The pilot, after snagging the cable and the pouch with his hook, hauled the pouch into the airplane and went on to the next point on his route.

AFTER WORLD WAR II, airport construction accelerated, and by 1949 many communities served by All American's pickup system had adequate airfields. That year, All American began passenger service, with DC-3s; it phased out its aerial-pickup mail service a few months later. The line changed its name to All American Airways in 1949, to Allegheny Airlines in 1953 and to USAir in 1979.

USAir's success can be traced in part to Ed Colodny's zeal to provide service, an inheritance from his youth in Burlington, Vt., where he was born in 1926.

"My father had a grocery in the days before there were supermarkets," he says. "The housewife would give us her order and we would deliver. Heck, we'd even deliver an order for just a bottle of milk."

"I started out very young in the store. My first job was to bag potatoes. Then I became a helper on the delivery truck, lugging bags of groceries into people's houses. I learned at an early age that if you want to succeed, you have to give service."

Ed Colodny, who went to public schools in Burlington, doesn't recall any great pressure from the family to pursue any particular vocation, even though an uncle was a prominent lawyer. His father's career advice was simple: "I only insist you don't become a retail grocer."

While at Harvard, Colodny was a short-order cook at the Midget, a well-known Cambridge restaurant. The owner, he recalls, "always said I was the best counterman he'd ever had."

Colodny never forgets accolades like that. They reinforce his insistence on service. "Some of those earlier experiences rubbed off on me and shaped my views on what an airline has to do," he says.

After graduation from Harvard in 1951, Colodny went into the Army Judge Advocate General Corps. He served as a first lieutenant at Fort Pickett, Va., and the Pentagon before being released from active duty in 1954.

Jobs were hard to find in 1954, and Colodny thought about returning to Burlington, but his first wife was not enthusiastic. As a compromise, they decided to stay in Washington—if Colodny could find a job.

"Through the Harvard Law School underground," he says, "I heard of an opening on the staff of the Civil Aeronautics Board. It sounded pretty good to me because I wasn't on the Harvard Law Review and I couldn't just walk in

often developed lengthy records that were ignored by the board when a decision was made."

It was through a case involving a route between Erie, Pa., and Detroit that Ed Colodny first met Leslie O. Barnes, president of Allegheny Airlines, then a regional air carrier that was vying with three other carriers for the route. Colodny recommended to the board that Allegheny and Mohawk Airlines both be given the route authority because they served different regions. Neither airline was happy, but in 1957 Barnes invited Colodny to lunch at the Willard Hotel in Washington.

Barnes, who had been impressed by Colodny's performance as a CAB lawyer, did the talking. The airline business was growing rapidly, and more and more CAB work was going to be involved, he said. Allegheny at that time was using a New York law firm, but Barnes felt that the airline had grown to the point—it was one of the two largest regional air carriers—that it needed an in-house lawyer.

Colodny thought about Barnes' offer for 24 hours and said yes. At the time, Colodny's government job was paying \$8,300 a year; Allegheny offered him \$10,000. "But money wasn't the important thing," he says. "It was the opportunity to be in on something—the company was about to submit an application to get a feeder

route up the East Coast from Washington to Boston. We got that route in 1960; it marked the start of Allegheny's expansion program."

At first, Colodny—Allegheny's one-man legal department—focused on CAB work. It was a few years before the company expanded the legal department to handle some of Allegheny's other legal work. Colodny's responsibilities also expanded; he was put in charge of public affairs and economic analysis as well as legal matters.

COLODNY can't recall the exact year, but in 1962 or 1963 he joined Barnes for cocktails at the rooftop lounge of the Washington Hotel. In the course of a general conversation about the future of the airline, Barnes asked Colodny if he had any interest in a career outside the law. They discussed the subject for an hour or so, and then Colodny told his boss that he would be interested if an opportunity presented itself. After that, the subject lay dor-



Edwin Colodny, here with Capt. John R. Hladon, tells all USAir personnel that "what we sell is time"—convenient schedules.

anywhere and let my credentials get me a job."

The doors were not open wide at the CAB, either. The division director who interviewed Colodny told him bluntly that his chances were slim because he had no aviation experience. Colodny offered the man a deal: a job for six months and then, if Colodny couldn't handle it, he would resign.

Colodny got the job and kept it. As a trial counsel, he held public hearings when an airline wanted to start a new route, and he recommended action to the board.

"I really liked the job," Colodny says. "I like litigation, and I learned some things that gave me great confidence—I could think on my feet, and I found I could hold my own with outside lawyers from some of the biggest law firms in the country."

However, Colodny sometimes grew weary of the lengthy hearings. "The lawyers did all the testifying and the expert witnesses did the lawyering. We

mant for years; but in 1969, when Barnes reorganized top management, Colodny was named executive vice president for both law and marketing services.

The latter involved all ground activity, flight attendants and in-flight food service. Colodny was back in the service business, and his entrepreneurial instincts surfaced quickly. He had the flight attendants' uniforms redesigned—Allegheny's stewardesses became the first to be outfitted in hot pants, wearing them for two years in the early '70s.

"Our biggest problem was making sure we had courteous flight attendants," he says. "Then, you weren't competing on price primarily, you were competing on service, ground handling and schedules to get the customer in and out on time."

Colodny saw a lot of the people under his direction in the next few years. "I spent a lot of time conducting station meetings with personnel," he says. "I still do, but it's getting more difficult because we have many more routes and stops."

Many a USAir employee has reached his attentive ear. While flying between stops, Colodny is too busy listening to passengers and crew to tackle paper work.

He not only listens, he marches along with the probing eye of an inspector general. A spot on the carpet, a chipped counter—these are the kinds of things a station chief hears about in a memo.

Colodny also has an eye on the clock. "In the 1970s," he says, "we learned that departure and arrival times were still the most important aspect of our product. What we sell is time. Much of our market is less interested in glamor and more interested in proper schedules at reasonable prices with down-to-earth service."

ALEIGHENY began converting its propeller-driven aircraft to jets in 1965. It merged with Lake Central Airlines in 1968 and with Mohawk in 1972. Three years after that, Les Barnes left to become chairman of Ryder Systems, and there were four contenders for the presidency—a financial vice president, two operational types and Ed Colodny.

Traditionally, the heads of airlines had come up through operations, but in this case the choice was Colodny, the legal and marketing expert, who was tapped for president and CEO. When Henry Satterwhite retired as chairman in 1978, the board named Colodny to

that job, too. By the end of Colodny's third year as president and CEO, Allegheny had become all-jet and had extended its system to Texas and Florida. A year later, the route system was extended to Alabama, Arizona, Louisiana and North Carolina.

It was time to shed the local-service image, and on Oct. 28, 1979, Allegheny was renamed USAir.

Today USAir has nearly 100 jets and 11,000 employees. Headquartered in Washington, it operates in 26 states and also serves Toronto and Montreal.

But there was a time when Ed Co-



In-flight service is Ed Colodny's specialty, as Flight Attendant Pat Guyton knows. Colodny talks with many employees on his trips around USAir's growing route system.

lodny thought his airline was imperiled. That was in 1978, when the industry was deregulated. Colodny was not against deregulation as such, but he feared that without some protection, smaller airlines like USAir would have a hard time against the big carriers.

"I thought Congress should pass a bill that took into account the disparity in size," he says. "For example, by giving smaller carriers a priority in achieving route expansion over the larger carriers for some period of time."

Ed Colodny recalls that battle on Capitol Hill with a shake of his head. "What we had not fully recognized then was that we had more pluses than some of the large carriers," he says. "They had locked into longer-haul routes with higher density requirements, particularly for the wide-bodied jets. They didn't have the right equipment to serve the shorter-haul market. Our smaller jets had more expansion capability and gave us flexibility."

"We were able to get better utilization out of our assets and improve the earnings picture to a much greater degree than the larger carrier fleets. That explains why, since deregulation, smaller airlines have done relatively well in comparison with the bigger carriers."

The lifting of more than 40 years of regulatory controls from the airline industry in 1978 forced management to adopt a new mentality, observes Colodny, a member of the board of directors of the U.S. Chamber of Commerce.

"We now have to make decisions in minutes," he says, "not months or years, and without going through the Civil Aeronautics Board, much less through sets of economists, lawyers and legal briefs."

Ed Colodny's long-term program for USAir is simple and concise—for the airline to continue to do what it does best and make a profit.

His personal long-term plans are not as well defined, except that when the time comes to leave USAir, he wants to move to a different career rather than retire. He notes that he has two sons—Mark, 15, and David, 13—to educate. (He also has a 28-year-old daughter from his first marriage, which ended in divorce in 1960.) His second wife, Nancy, whom he married in 1965, was a systems engineer for IBM. She now has another career going, as a computer consultant.

These days, Ed Colodny finds himself with three fishing fanatics on his hands when the weather is good on the Chesapeake

Bay. Not a fisherman himself, Colodny skippers his 24-foot cuddy-cabin Sea Ray for his wife and sons in search of stripers and blues. His other sport is golf, and he plays at Burning Tree Country Club near his home in Chevy Chase, Md.; but full weekends at the helm of his boat keep his handicap hovering around 24.

Before Ed Colodny thinks about a new career, or more time on the golf course, he wants to make sure his company weathers the storms brought on by deregulation. "What is happening today in our industry is that the new entrants are giving it away," he says. "I have nothing against competition or new entrants. But I do have a bone to pick with those who want to give the new entrants credit for something they don't deserve. Any fool can cut the price of his product and give it away. It takes no genius, but these same folks stimulated by deregulation have won a lot of favor in some communities because they cut the price. What those communities don't realize is that when you give here, you've got to make it up there."



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The Breeder's Birth Pains

The Clinch River reactor, advocated as crucial to our energy future, faces an uncertain future itself.

By Tony Velocci

AS THE 1970s opened, energy planners worried about how to meet projected demands for 7 percent more electricity every year to supply an expanding U.S. economy.

Nuclear power was one of the major sources considered, but there was a crucial drawback: Construction of large numbers of conventional nuclear generating stations could cause eventual shortages of uranium, the basic fuel for such plants. Engineers offered a solution that, to the uninitiated, seemed almost too good to be true: the breeder reactor, which would create more nuclear fuel than it used as it produced steam to drive electric generators.

In 1972 Congress authorized construction of the first U.S. demonstration breeder reactor, as part of the Tennessee Valley Authority complex, and designated a site on the Clinch River in Tennessee. The cost was estimated at \$400 million.

Progress has been slow, but site preparation at last is under way. Construction is expected to begin next spring.

However, it may not. Since construction was authorized, there have been

major changes in the basic assumptions underlying the project. The estimated cost has soared. And estimated demand for electricity has fallen.

Appropriations to keep the project going have been approved by increasingly narrow margins. Last year, for example, it survived by only two votes in the Senate. A drive to kill the project now centers on the Reagan administration's request for \$228 million in operating funds. A crucial vote is expected either in Congress' lame-duck session or early next year.

President Reagan, whose support represents the project's best prospect for survival, says, "The demonstration of breeder-reactor technology, including completion of the Clinch River breeder reactor, is essential to ensure our preparedness for the longer-term nuclear power needs."

But the critics are out in force. Sen. Gordon Humphrey (R-N.H.), a strong nuclear advocate who is leading the fight against the project among Republican senators, asserts that it "is the biggest waste of taxpayers' dollars ever conceived. The only thing keeping it going is its own momentum."

Both sides in the dispute agree on the importance of the 1983 appropriation. "If funding is cut off now, it will only be a few months before we are out of business," says Raymond Copeland, assistant general manager of the Breeder Reactor Corporation, a partner in the development of Clinch River, which was conceived as a joint effort between the government and private industry. The Department of Energy manages the project, and 753 U.S. electric utilities, representing about 80 percent of domestic generating capacity, have pledged \$257 million toward it.

Once completed—the target date is 1989—the 350-megawatt Clinch River demonstration reactor would provide operating experience to validate engineering designs. The facility would generate enough power for a city of 200,000. The reactor would produce, or breed, plutonium as a by-product—hence the name "breeder." Development of breeders is a high priority in five other countries. France leads the world in breeder technology.

EVEN THOUGH THE ENERGY form at the center of the Clinch River tempest is nuclear, the project is being attacked not for that reason, but on economic grounds. Growth in electricity demand through 2000 is now estimated at 3 percent a year, less than half the planning figure of a decade ago. Plans for construction of more than 60 conventional reactors have been canceled, and there is an oversupply of uranium. And the estimated cost of the Clinch River breeder reactor ranges from \$3.6 billion to \$10.1 billion, depending on whose figures are used.

The \$3.6 billion figure is a recent one from the Department of Energy, which says it covers design, construction and equipment for the plant, plus the net expense of operating the plant for a five-year demonstration period. A recent House energy subcommittee analysis concludes that the department's estimate could be \$6.5 billion too low, and the General Accounting Office thinks the subcommittee is roughly correct.

Rep. Richard Ottinger (D-N.Y.), the subcommittee's chairman, points to omissions in the department's analysis.

Like the atomic power plants already operating, the Clinch River breeder would use heat from fission to make steam which, in turn, would drive a turbine to generate electricity. The fission process in the breeder, however, would release two or three more neutrons than fission normally produces. One would keep the chain reaction going; the others would be harnessed to turn uranium into plutonium.

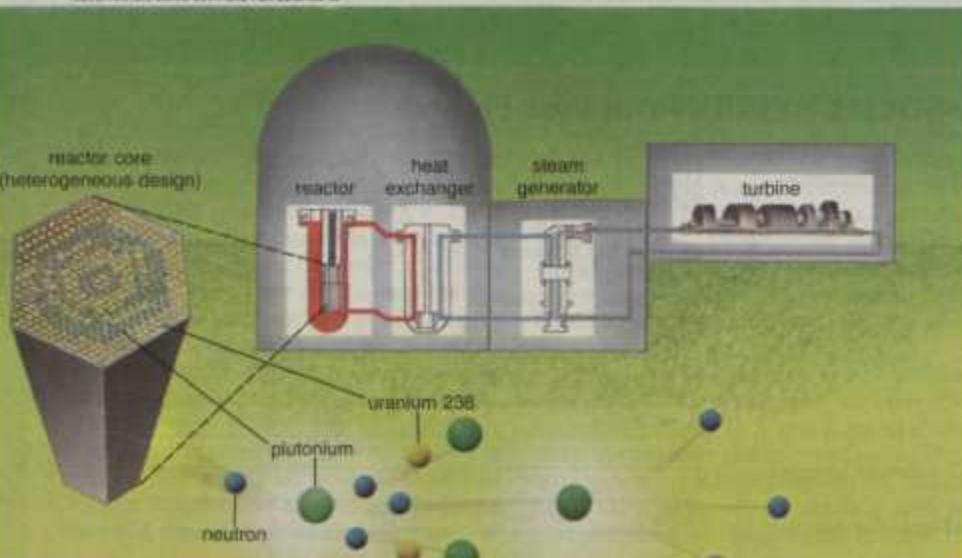




PHOTO: BREEDER REACTOR CORPORATION

Most major components for the Clinch River breeder, like this reactor core undergoing tests, have either been fabricated or are on order. Construction of the plant itself is supposed to begin next spring, but it may not. Opponents want to kill the project by cutting off all funding.

Not included, he says, are support activities such as waste management and fuel reprocessing. Also left out: the cost of the interest the federal government pays on money borrowed to finance the facility.

OPPOONENTS OF THE project have assembled an unusual coalition that includes conservatives, liberals, environmentalists and scientists who support nuclear power but not the breeder reactor. Their chorus of criticism starts with the project's cost and goes on from there.

They emphasize that the growth of electricity consumption has slackened—in the past two years electricity use in America has been virtually unchanged. And, they note, overall energy consumption has been falling. So, they say, breeder technology won't be needed or commercially viable for decades—60 years, some predict.

Opponents also argue that the Clinch River reactor design inevitably is outdated because it was conceived more than a decade ago. And, they say, if the plant is completed, the danger of proliferation of nuclear weapons will increase because of the plant's creation of plutonium, a prime atomic weapons

ingredient. When President Carter was in the White House, he tried to stop the project, basically for this reason.

Critics' alternative to breeder reactors is to improve the efficiency of conventional light water reactors, which now supply about 12 percent of U.S. electricity needs. These plants convert only about 1 percent of the energy contained in uranium into useful power. Breeders are 60 times more efficient.

Supporters of the project include the American Association of Engineering Societies, the U.S. Chamber of Commerce, the AFL-CIO, the National Association for the Advancement of Colored People and Americans for Energy Independence. Here is how they respond to major criticisms:

Need. The U.S. is far from being out of the energy woods. Experts predict a dramatic shift in the nation's energy mix by the turn of the century, with electricity use more than 70 percent above 1980 levels. Both the National Academy of Sciences and the General Accounting Office have recommended that the U.S. continue development of the breeder reactor so it will be commercially available in the 21st century. Like fossil fuels, uranium is a limited resource, and supplies, though abun-

dant, will eventually be depleted. The breeder would extend this resource for hundreds of years.

Cost. Proponents say that a first-of-a-kind demonstration of any advanced technology is inherently expensive. Inflation and government-mandated safety standards, more stringent than originally contemplated, are responsible for much of the increase in the project's cost, says Assistant Energy Secretary Shelby T. Brewer. In addition, he says, efforts during the Carter administration to kill the program set the schedule back six years, adding an estimated \$800 million to the total price tag.

Technology. Getting any piece of sophisticated machinery from the conceptual stage into service is a multi-year undertaking, say proponents, so they concede that part of the final product is bound to be dated. That is why, they add, the Clinch River project has been upgraded continually to reflect current technology, including the most modern safety equipment.

Proliferation. That risk has existed ever since the first commercial nuclear power plant went into operation 25 years ago. Although the risk increases with each new plant that goes on line, Brewer says that the government and the nuclear industry are constantly striving to improve the security of facilities and nuclear material to thwart any illegal diversion for weapons production.

Cancellation of the project would likely discourage joint utility-government cooperation in major future energy projects and disperse a highly trained technical team and manufacturing base that took several decades to assemble, say energy authorities.

"You can't shelve an undertaking of this magnitude and in another 10 or 20 years expect to pick up where you left off," says John Kearney, senior vice president of Edison Electric Institute.

GAO cautions that terminating the breeder reactor program would imply "willingness to possibly foreclose on the long-term future of a major energy option—nuclear fission."

Advocates of both sides of the breeder issue predict that their respective forces will prevail the next time the Clinch River project comes up for a vote in Congress. □

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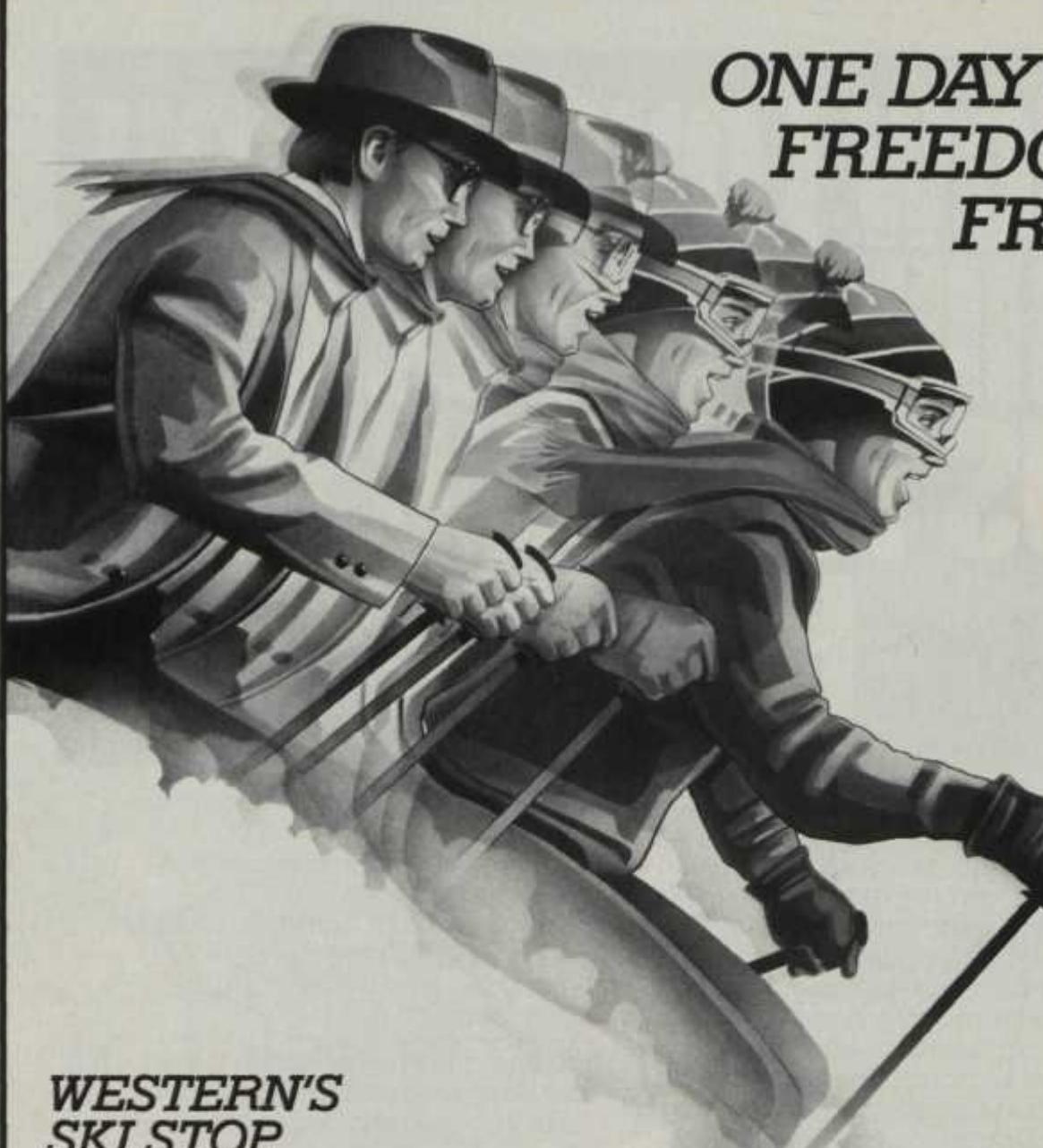
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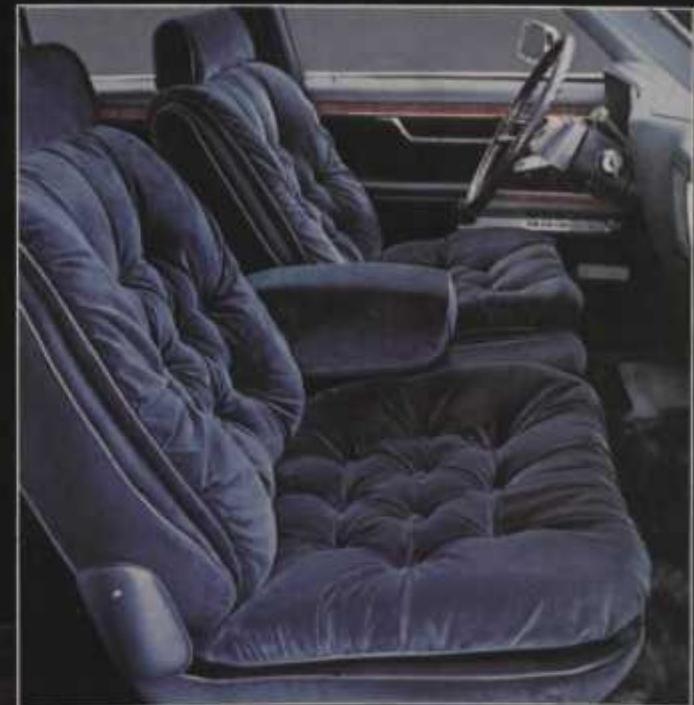
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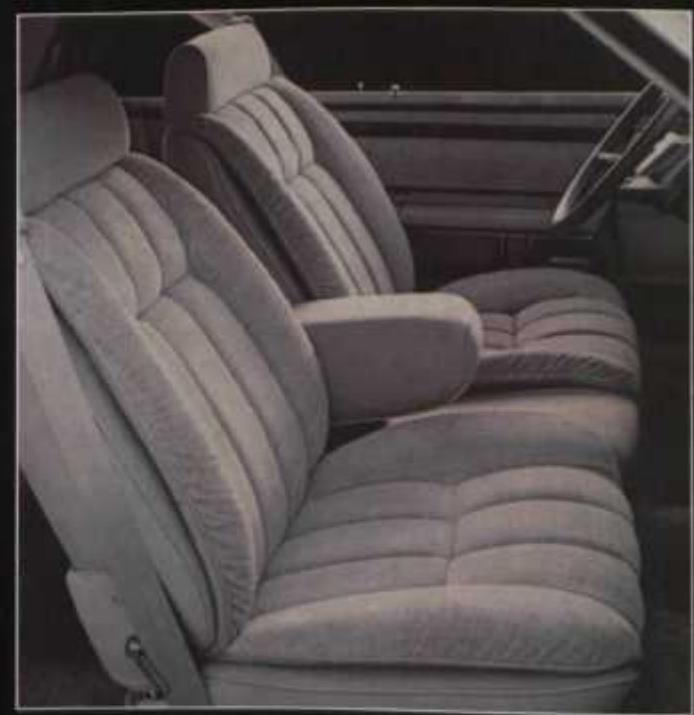
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Chick-fil-A's Careful Captain



PHOTO: JOE BENTON—ATLANTA CONSTITUTION

S. Truett Cathy, wearing one of his special "C" ties, stands before a remodeled version of the original Dwarf House in Hapeville, Ga., where his fast-food empire started out small.

WHEN HE WAS passing through the receiving line at a reception this fall for a new professor at Emory University in Atlanta, S. Truett Cathy was pleased to hear the professor say how much he enjoyed the special taste of the chicken sandwiches at Cathy's Chick-fil-A fast-food restaurants.

Cathy was so pleased that he sent the professor, former President Jimmy Carter, a personal Cathy trademark—a tie with a pattern of "Cs" on it. Each "C" is a replica of Cathy's company logo, a whimsical version of a chick-en's head.

The logo is seen on signs above 255 outlets in 30 states. Cathy has been adding about 20 outlets a year; sales have been doubling every two years or so, and they reached \$101 million in 1981. Last May on the edge of Atlanta, he presided over the opening of his new corporate headquarters—a five-story building, with glassed-in elevators and indoor balconies that overlook an 80-foot atrium lobby, on 75 acres of woods and streams.

Cathy, 61, began his business career at age 8 in Eatonton, Ga., buying six soft drinks for 25 cents and selling them for a nickel apiece. The five-cent profit was needed at home, where his mother took in boarders for chicken meals. His father sometimes made only 50 cents a day collecting weekly insurance payments.

A few years later, Cathy sold magazines and newspapers to cover the incidental costs of a public high school education.

After World War II military service, Cathy pooled his resources with one of his brothers, Ben (who later died in an airplane crash). They opened the Dwarf House, a tiny coffee shop, and they kept it open 24 hours a day—but only six days a week. Cathy is a devout Baptist who teaches Sunday school. Today he does not allow any Chick-fil-A outlet to remain open on Sunday for any reason.

Around 1963, after tinkering with seasoning formulas, Cathy developed a

highly marketable fast-food chicken sandwich—a pressure-fried boneless chicken breast, served on a buttered bun. The sandwich is prepared in four minutes, fried in peanut oil. (Former peanut farmer Jimmy Carter was especially pleased to hear about the peanut oil when he spoke with Cathy at the Emory reception.)

Cathy began serving the sandwiches in the Dwarf House, and he franchised the process to some other restaurants, but he was not satisfied with his franchisees' results.

So he hired James L.S. Collins, a food service consultant, in 1968 and began opening his own stores under the Chick-fil-A name. Collins, who is executive vice president of Chick-fil-A, Inc., today, designed the kitchen and serving facilities that are standard in all the stores. Cathy has almost a mystic affinity for the letter C, and there are those who joke that if Collins' name had begun with another letter, the two men would not have teamed up.

THE FIRST Chick-fil-A unit opened as "a hole in the wall," as Cathy describes it, in an Atlanta shopping center. All 254 that have opened since are located in major shopping centers, which is part of the Cathy-Collins formula for success. They go into shopping centers only after careful traffic

and sales-volume studies. As a result, Chick-fil-A has never had to shut down a store because of poor sales—a remarkable record.

Through careful budgeting, the first 17 stores were opened without any outside financing, and the chain has remained a wholly-owned family enterprise. Cathy's company designs and builds each store and retains full ownership.

Each franchise operator is carefully screened and, once approved, puts up \$5,000—the only cash requirement. Operators are allowed to run only one store apiece, and they must put in a minimum of 40 hours a week at the store themselves.

Sales run about \$500,000 annually at each store, according to company figures, and net profits are split 50-50 between the operator and the company. Operators' profits will average \$36,000 this year, Cathy says.

"I am confident that if we pick the right persons and look at their character closely," Cathy says, "management schools are not necessary. It's the people who matter. We have only about 2 or 3 percent turnover in operators."

CATHY HAS SOME unusual ideas about how to invest in people. For instance, Chick-fil-A offers \$1,000 college scholarships to any student who has worked for the company at least two years and at least 20 hours a week, while maintaining at least a C average (there's that magic letter again) in high school. Chick-fil-A has awarded more than \$700,000 in those scholarships since 1975, and many of the students return to the company after college.

Cathy has tremendous faith in young people. He keeps a fleet of 12 trail bikes at his farm for the enjoyment of young employees and youngsters he teaches in Sunday school. "After a long work day I enjoy riding a trail bike, too," he says. "Hitting the breeze for 10 or 15 miles sure feels great."

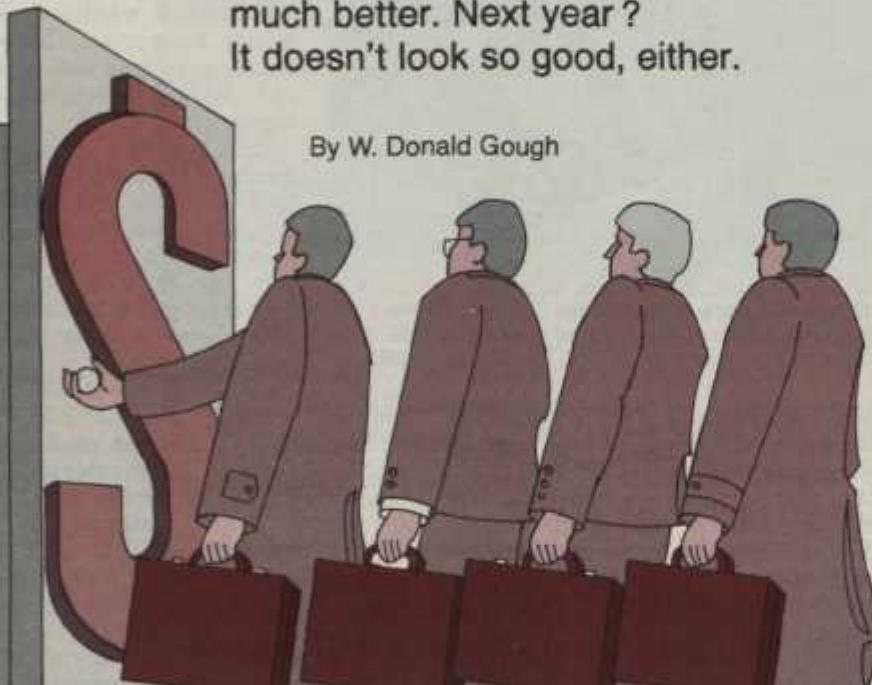
S. Truett Cathy, it comes as no surprise, has no plans to retire. □

—Seth Kantor

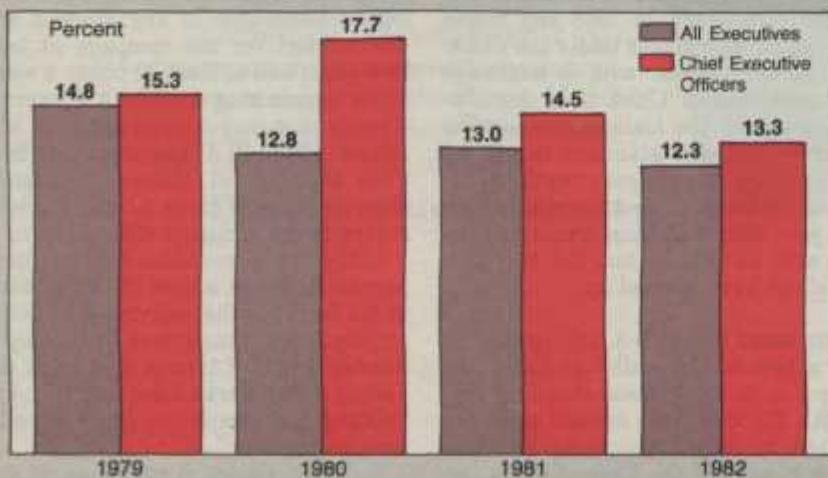
Recession In Executive Pay Hikes

The 1982 managerial salary picture could have been worse, but it also could have been much better. Next year? It doesn't look so good, either.

By W. Donald Gough



Average Executive Increases Vs. Chief Executive Officer Increases, 1979-1982 Total Compensation (Salary Plus Bonuses)



Source: Sibson & Company's 1982 Annual Management Compensation Survey

THE RECESSION has taken its toll on 1982 executive paychecks, although executives as a group have not fared as badly as might have been expected. However, many executives will be affected in 1983—more than 25 percent of the companies surveyed by Sibson & Company have indicated that they either have postponed or plan to postpone management salary increases until the middle of the year.

These are among the findings of the annual Sibson study of executive pay, which is based in part on a survey of 1982 salary increases at more than 500 companies. The companies, from many different industries, have sales ranging from approximately \$10 million to \$5 billion. The study also reports on the salary-planning activities of more than 1,000 firms.

Managers' pay increased less this year than it did last year, the first time that has happened since 1975. Nevertheless, salaries for executives rose 10.9 percent in 1982 and total compensation (salary plus bonus) increased by 12.3 percent.

The 1981 increase in total compensation was 13 percent. Salaries increased 12.3 percent last year, the steepest rise since Sibson & Company began tracking salary increases 18 years ago.

Most companies are projecting a smaller increase in salary budgets next year than in 1982. Consequently, 1983 salary increases for management should average between 7 and 8 percent among companies whose profits in 1982 permit salary increases.

Inflation was at double-digit levels at the beginning of 1981, and compensation for managers barely kept pace. This year the annual increase in the consumer price index is expected to be considerably less—5.5 percent—and even though pay increases have declined, executive purchasing power should grow. If inflation continues to decline or remains at low levels, pay increases in 1983 should, at the very least, allow executives to "remain whole" with price rises.

Many media reports have painted 1982 as one of the worst years for executives in recent history, with widespread pay freezes and salary cutbacks. However, these practices were not as

W. DONALD GOUGH is a managing principal of Sibson & Company of Princeton, N.J., a leading consulting firm specializing in compensation and personnel management. More than 1,000 companies will use Sibson's 18th annual executive compensation study in planning management pay for 1983.

prevalent as the media would have had us believe. Only about one fourth of all companies froze salaries or postponed increases in 1982—about as many as are planning to do so in 1983.

Still, publicity about cuts and freezes has had its effects. One executive was saddled recently with the job of announcing reductions in salary increases at his company, and he was surprised by the reaction. "Everyone was pleased they weren't cut further," he said.

Not all of the significant effects on executive compensation in 1982 were caused by the recession. Congress did its part by tightening the law on stock option plans.

In 1981, with the enactment of the Economic Recovery Tax Act, Congress stimulated interest in stock option plans by authorizing incentive stock options. The ISOs were extremely favorable to executives because of the lower tax rates on the gains received between the time the options were granted and the time they were sold (a maximum 20 percent capital gains rate compared with a maximum 50 percent personal income tax rate). Consequently, more than 80 percent of all companies with stock option plans adopted incentive stock options in 1982, and 65 percent converted outstanding options to ISOs.

This flurry of activity (and the growing federal budget deficit) prompted Congress last summer to re-examine the 1981 law and enact new rules concerning ISOs, before some of the provisions of the 1981 law had even taken effect. Now, under the Tax Equity and Fiscal Responsibility Act of 1982, the ISO tax rate can vary between 20 and 40 percent, depending on the magnitude of the stock's price growth and the taxpayer's other taxable income in the year of exercise.

UNLIKE OTHER STOCK option plans, incentive stock options offer no tax advantage to the companies providing them. Companies cannot take a tax deduction on the difference between the grant price and the exercise price for ISOs. In the final analysis, a company must measure the tax savings that individuals receive with ISOs against the tax deduction that the company can receive if it uses another plan.

Companies have been looking for new ways to motivate executives during this period of declining earnings and diminishing bonus opportunities, and ISOs are one approach. Many companies have used stock option grants and stock compensation in lieu of the salary increases that executives grew accustomed to the past several years.

Sibson & Company's annual execu-



Average Pay Levels of Key Executives, 1982

(In Thousands of Dollars)

Revenues	Chief Executive Officer		Top Financial Executive		Top Manufacturing Executive		*Top Division Executive	
	Salary	Bonus	Salary	Bonus	Salary	Bonus	Salary	Bonus
\$10 million to \$25 million	\$ 95	\$ 21	\$ 55	\$ 9	\$ 56	\$ 9	\$ 72	\$15
\$25 million to \$50 million	118	31	65	12	63	10	82	20
\$50 million to \$100 million	141	44	75	17	69	12	93	25
\$100 million to \$500 million	208	77	101	28	83	17	117	38
\$500 million to \$750 million	258	101	118	37	92	20	134	44
\$750 million to \$1 billion	277	119	128	42	95	22	141	50
\$1 billion to \$5 billion	386	189	168	62	112	29	N.A.	N.A.

*Revenues are for division only.

N.A.: Data not available.

Source: Sibson & Company

tive compensation study, which includes an analysis of the proxy statements of the nation's 500 largest companies, indicates that there is a continuing increase in the use of long-term bonus plans—often called performance units or performance shares—to complement existing stock option plans. Almost 60 percent of large companies use more than one bonus element as part of their long-term incentive program for management. A typical program would include stock options with stock appreciation rights provisions, performance units or long-term bonus opportunity, and either restricted or phantom stock.

These plans are designed to keep managers interested and motivated and to provide rewards based on attainment of goals that management can affect more directly than it can affect stock price increases. Most companies have used earnings per-share growth over a four- or five-year period as the primary goal. Others have used either return-on-equity or a combination of return-on-assets and earnings growth as performance measures. Typically, goals are established relative to peer-group performance or are tied to goals identified in the strategic plan.

With the passage of the 1982 tax act, the trend toward adoption of supplemental retirement plans for selected se-

nior executives should accelerate. The 1982 law lowers from \$136,425 to \$90,000 the amount that an employee can receive annually from a defined-benefit plan; the ceiling will remain at that level until 1986. The supplemental plans avoid the ceiling by providing for additional payments out of the company's current earnings.

Last year 35 percent of the companies surveyed provided supplemental executive retirement plans. In 1982 the figure had risen to 40 percent. The prevalence of such plans appears to increase with company size, and nearly 60 percent of large diversified companies have implemented such plans.

The high number of acquisitions, mergers, company bankruptcies and layoffs has caused job security to become an important factor in determining special benefits for management. Employment contracts, once used primarily for chief executive officers, are now being extended well down into many executive hierarchies.

About a third of all companies and approximately half the nation's largest corporations grant some form of employment contract, at least to top executives. Industries with the highest use of employment contracts, greater than 50 percent, include entertainment, retailing and airlines. □

The Benefit Bonanza

How employee benefits add one third to payroll costs.

By Fred D. Lindsey

EMPLOYEE BENEFITS will cost American employers about \$540 billion in 1982, \$55 billion more than last year. This record sum is paying for vacation time, paid holidays, sick leave, insurance, pensions and numerous other benefits.

Benefits, which equal more than one third of payroll dollars, are growing faster than wages. They rose 161 percent from 1971 to 1981, whereas wages and salaries grew only 115 percent. (Inflation, as measured by the consumer price index, was 124 percent during the same period.) Benefits rose 8.9 percent from 1980 to 1981, and wages rose 8.5 percent.

Employers spent a weekly average of \$127.44 per employee for benefits in 1981, compared with a weekly average of \$48.92 in 1971.

Employee benefits in 1981 are analyzed in a survey of 994 manufacturing and nonmanufacturing firms conducted by the Survey Research Center of the U.S. Chamber of Commerce. This is the 20th benefits study conducted by the Chamber, which has been keeping track of the growth of employee benefits since 1947.

Benefit costs vary widely from company to company and from industry to industry.

Thirty-three firms reported weekly benefit costs of less than \$60 per employee; 58 firms reported weekly costs per employee of \$200 or more.

In the petroleum industry, weekly benefits averaged \$226.06. Public utilities' benefit costs were \$174, and the chemical industry paid \$156.90. Among the lower-paying industries were textile products and apparel (\$72.54), wholesale and retail trade (\$82.35) and hospitals (\$87.17).

The types of benefits are (1) wages paid for time not worked, including va-

cations, holidays, sick leave, emergency leave, coffee breaks and rest periods, totaling, on average, \$45.67 per employee per week, and (2) nonwage payments, which include pensions, insurance premiums, Social Security taxes, unemployment compensation taxes, profit-sharing and similar benefits, totaling \$81.77.

More than 25 kinds of benefits were covered in the survey but six—Social Security taxes, insurance premiums, private pensions, paid vacations, paid holidays, and paid rest periods and coffee breaks—each cost more than \$11 per week and all together accounted for more than 78 percent of total benefit payments.

The most expensive benefit was em-



Weekly Employee Benefits, per Employee

	1971	1981	Percent change
Old-age, survivors, disability and health insurance (FICA taxes)	\$7.15	\$21.60	+202%
Insurance (life, hospital, surgical, medical, etc.)	7.10	20.63	+191
Pensions (nongovernment)	7.73	17.88	+131
Paid vacations	7.69	16.96	+121
Paid holidays	4.69	11.48	+145
Paid rest periods, coffee breaks, lunch periods, etc.	5.38	11.46	+113
Workers' compensation	1.58	4.94	+213
Paid sick leave	1.58	4.60	+195
Unemployment compensation taxes	1.15	4.25	+270
Profit-sharing payments	1.65	3.69	+124
Dental insurance	N.A.	1.29	N.A.
Short-term disability	N.A.	1.23	N.A.
Thrift plans	0.31	1.23	+297
Christmas or other special bonuses, suggestion awards, etc.	0.67	1.17	+75
Salary continuation or long-term disability	N.A.	0.79	N.A.
Employee education expenditures	0.15	0.77	+413
Employee meals furnished free	0.25	0.58	+132
Discounts on goods and services purchased from company by employees	0.23	0.48	+109
Other employee benefits	1.63	2.41	+48
Total employee benefits	\$48.92	\$127.44	+161
Average weekly earnings	\$158.85	\$342.04	+115

N.A.: Data not available.

FRED D. LINDSEY, a retired statistician, conducts the annual surveys on employee benefits for the U.S. Chamber of Commerce.

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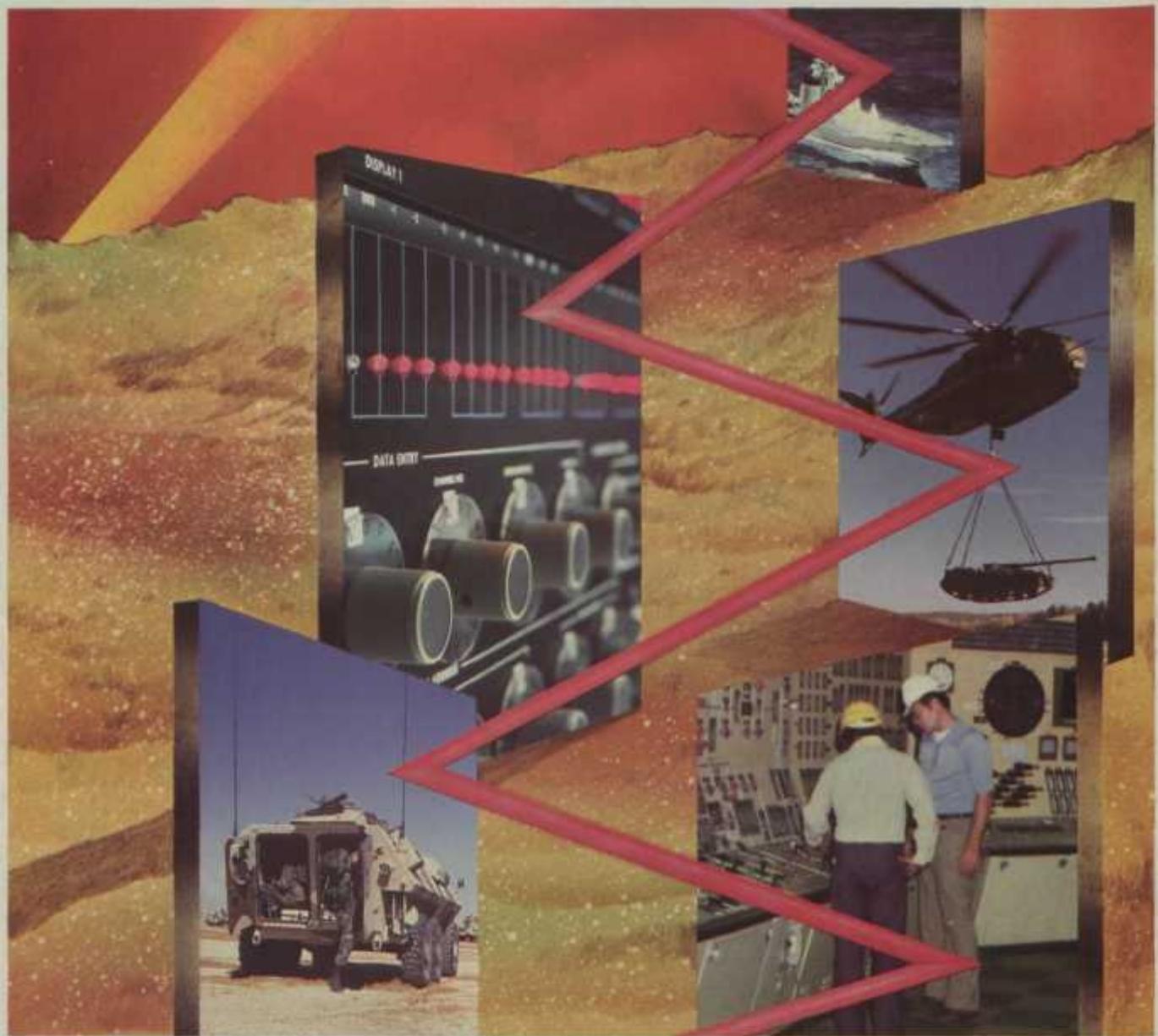
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ployer taxes for Social Security—old-age, survivors, disability and health insurance (FICA taxes), averaging \$21.60 per employee per week. (This figure does not include an equal amount withheld from the employee's wages.) This is the fastest-growing major benefit, having increased 202 percent since 1971.

Employer payments for life, hospital, surgical and medical insurance totaled almost as much—\$20.63 per week per employee. This is another fast-growing benefit, having increased 191 percent since 1971.

Private pensions for all industries averaged \$17.88 per employee per week. The petroleum industry's pension costs were highest—averaging \$47.44 per

time cost employers an average \$11.46 per week per employee. This time averaged 16 minutes a day for all industries but ranged from 22 minutes a day for the chemical industry down to 12 minutes a day for miscellaneous nonmanufacturing industries.

Other employee benefits included: workers' compensation, \$4.94 per employee per week; paid sick leave, \$4.60; unemployment compensation taxes, \$4.25; profit-sharing payments, \$3.69; dental insurance, \$1.29; short-term disability and thrift plans, \$1.23 each; Christmas or other special bonuses, \$1.17; salary continuation or long-term disability, 79 cents; employee education, 77 cents; employee meals furnished free, 58 cents; and discounts on goods and

Employee Benefit Costs by Industry, 1981

	Per employee per week
All industries	\$127.44
Manufacturing:	
Petroleum industry	226.06
Chemicals and allied products	156.90
Transportation equipment	148.54
Primary metal industries	147.12
Machinery (excluding electrical)	139.60
Electrical machinery, equipment and supplies	135.02
Printing and publishing	129.88
Fabricated metal products (excluding machinery and transportation equipment)	125.40
Rubber, leather and plastic products	124.88
Stone, clay and glass products	123.37
Food, beverages and tobacco	123.02
Pulp, paper, lumber and furniture	118.31
Instruments and miscellaneous products	116.13
Textile products and apparel	72.54
Nonmanufacturing:	
Public utilities	174.00
Insurance companies	121.33
Miscellaneous nonmanufacturing industries (research, engineering, education, government agencies, construction, etc.)	114.75
Banks, finance and trust companies	113.79
Hospitals	87.17
Wholesale and retail trade	82.35

week—followed by public utilities' \$38.98 per week.

The cost of paid vacations averaged \$16.96 per employee per week. Vacation time averaged 12.5 days per year for all industries but ranged from 15 days for the petroleum industry down to 8 for wholesale and retail trade.

Paid holidays averaged 8.5 per year and cost employers \$11.48 per week per employee. The transportation equipment industry gave its employees the most paid holidays—an average 10.5—per year, and nonelectrical machinery averaged 10. Wholesale and retail trade averaged only 6.

Paid coffee breaks, rest periods, wash-up time and other unproductive

services purchased from the company by employees, 48 cents.

Several benefits were reported by only a small proportion of employers, and their costs were substantially higher than the averages for all companies. For example, profit-sharing payments averaged \$3.69 per employee per week for all companies in the survey, but averaged \$17.57 for the relative handful of companies that actually made profit-sharing payments. □

Employee Benefits 1981, a 36-page report, can be purchased for \$7 a copy from the U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062.

What You Didn't Know About Employee Benefits

The new edition of Employee Benefits, published by the U.S. Chamber of Commerce, shows an increase in total benefits costs to 37.3 percent of payroll... a total of \$485 billion. In addition to reporting data from almost 1,000 companies nationwide, the current report also traces the growth of employee benefits in an identical group of 175 companies over a 20-year period. The annual survey enables a company to compute the cost of its own benefits and compare them with those of other companies. With 36 pages, including 22 tables and 4 charts, the report (#6601) is only \$7.00 a copy (discount on order of 10 or more). Send your order to P.O. Box 114, Kensington, Md. 20795. (Make checks payable to U.S. Chamber of Commerce. Please add appropriate sales tax for deliveries in D.C. and California.)

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Guide to Tax Changes Set for 1983

MAJOR provisions of tax legislation enacted by Congress in 1981 and 1982 are still to take effect. Here is a listing of changes that will be implemented in 1983.

Taxes on Businesses

January 1

- The amount of investment tax credits used to offset tax liability over \$25,000 is reduced from 90 to 85 percent from this tax year onward. The basis adjustment for taxpayers who claim a regular, energy or rehabilitation investment tax credit is reduced.

- Corporations must now pay the balance due on income tax liability within 2½ months of the close of the taxable year, instead of deferring half the balance for an additional three months. In most cases, estimated quarterly payments during the year must total 90 percent of the current liability, instead of 80 percent.

- The federal unemployment tax rate goes from 0.7 to 0.8 percent, and the wage base from \$6,000 to \$7,000.

- The corporate tax rate on the first bracket (up to \$25,000) drops from 16 to 15 percent. On the second bracket (up to \$50,000) it drops from 19 to 18 percent.

- Advantages of certain tax preferences available to corporations, with the exception of Subchapter S corporations, become subject to new restrictions.

- Corporations building nonresidential structures must amortize interest and tax obligations incurred during the construction period.

- Restrictions are placed on the completed-contract method of accounting, under which tax liabilities can be deferred until completion of a contract.

- Contributions to, and loans by, corporate pension plans come under new restrictions. Noncorporate plans will be placed on a comparable basis with the corporate plans and will be subject to new restrictions designed to reduce the attractiveness of forming personal-service corporations. Separate restrictions are set on so-called top-heavy plans, those designed to benefit key employees.

- Taxation of income earned from for-

eign oil and gas operations is tightened.

- Companies operating in U.S. possessions, principally Puerto Rico, will be taxed more heavily on passive investment income and intangible income.

- Rules on registration, approval and reporting requirements for industrial development bonds are tightened. Users will be restricted to straight-line depreciation.

- Businesses using direct sellers or independent contractors must file with the Internal Revenue Service new reports covering transactions in 1983 and subsequent years. Reporting is expanded to cover interest, state and local tax refunds, pensions, annuities, insurance and brokers (including barter exchanges). Restaurants must report gross sales and 8 percent of that amount as tips to their employees.

- Revisions to laws on Subchapter S corporations take effect for 1983 and later tax years. The changes allow small businesses greater flexibility in determining the proper form of ownership to improve financial and tax positions. (See "For Your Tax File," page 14.)

- The windfall-profit tax rate on new oil is cut to 25 percent. Stripper wells owned by independent drillers are exempted from the tax.

May 1

- The targeted-jobs credit is extended to cover wages to disadvantaged youths hired for any 90-day period between May 1 and September 15. The credit is effective through 1984, when Congress will decide whether there should be a further extension.

Taxes on Individuals

January 1

- The add-on minimum tax is repealed. This was a 15 percent tax on certain "preference items" minus the greater of \$10,000 or one half of regular tax liability. The alternative minimum tax is expanded. Alternative minimum tax liability is calculated by adding to adjusted gross income certain tax preferences that have been increased by the new law.

- The medical deduction will hence-

forth be computed on the basis of 5 percent of adjusted gross income from taxable years 1983 and beyond, instead of the previous 3 percent. The separate medical deduction for \$150 of medical-insurance premiums is eliminated, and all such premiums will come under the 5 percent exclusion.

- The so-called marriage penalty is eased by raising to 10 percent, from the present 5 percent, the deduction of the lesser earner's wages on a joint return.

- The casualty loss deduction is restricted to losses that exceed 10 percent of adjusted gross income. As before, there is a \$100 deductible on each loss.

- The exclusion for income earned abroad is raised from \$75,000 to \$80,000.

- The cigarette tax is raised from a basic 8 cents to 16 cents a pack through Sept. 30, 1985, when it will return to the lower level unless Congress votes otherwise. The telephone excise tax is raised from 1 to 3 percent through 1985, after which it will end.

- The estate-tax exclusion is raised to \$275,000, and the maximum rate is cut to 60 percent. The change applies to bequests by individuals who die in 1983.

- Federal taxes must be withheld from pension, profit-sharing and annuity payments, unless the recipients elect not to have taxes withheld. Under prior law, withholding was voluntary with the payer.

July 1

- The third and final 10 percent reduction in individual income tax rates under President Reagan's tax-relief plan takes effect.

- Withholding at a 10 percent rate is imposed on dividends and interest. Individuals with low tax liability can seek exemptions.

Additional details of the tax legislation Congress enacted this year are available in the booklet The 1982 Tax Law: What It Does to You and Your Business, published by the Tax Policy Center of the U.S. Chamber of Commerce, Washington, D.C. 20062. Copies are \$5 each, with volume discounts.



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KENTUCKY & CO.
The state that's run like a business.

SCHUTT Manufacturing Company, of Litchfield, Ill., spends \$70,000 a year on product liability insurance, but the head of the small, family-owned firm worries over whether that is enough. "If damages are awarded beyond our insurance coverage in any outstanding case, we are out of business," says 75-year-old Delby Humphrey, chairman of the company, which makes face guards for football helmets. Sales this year will total about \$1.5 million.

His son, Robert, the company's president, cites a related problem: The insurance expenses must be added to product costs, making Schutt more vulnerable to foreign competitors who pay lower wages and, overall, do not have high liability insurance costs.

Problems like those Schutt faces on product liability have become a major concern for many types of businesses of all sizes in recent years.

While Schutt worried about injury claims that might arise from use of the 400,000 face guards its 30 employees turn out annually, the Manville Corporation, with \$2.2 billion in assets, declared bankruptcy in August in the face of 16,500 lawsuits alleging exposure to the company's asbestos products. Manville estimates that settlements and legal fees could exceed \$2 billion.

Though such lawsuits ordinarily are directed against manufacturers, it is not unusual for wholesalers, distributors and retailers to be named as defendants, too. And insurance companies frequently lose money on product liability coverage.

Efforts to ease business product liability problems have been under way in Washington for the past seven years, and it now appears that business-backed legislation is heading toward passage in Congress.

The measure (S. 2631), approved in October by the Senate Commerce, Science and Transportation Committee, would not deal with all product liability issues to the satisfaction of all companies, but it is viewed as a major step forward.

Sen. Robert W. Kasten (R-Wis.), chief sponsor of the measure, says it addresses what has become "a serious impediment to interstate and foreign commerce."

The bill would pre-empt state laws on product liability. A uniform federal statute would eliminate what Kasten terms the "crazy quilt of 51 jurisdictions having different laws, most of which are subject to change in a single [court] decision."

Kasten, who is chairman of the Consumer Subcommittee of the Commerce Committee, says that consumers should have the right to recover damages if



Progress Ahead On Product Liability

It looks like government finally will adopt a more sensible way to deal with a threat to many companies.

injured by faulty products and that "manufacturers should have clear standards of responsibility under which they can know their obligations."

Among key provisions of Kasten's bill, in the words of a summary accompanying the measure:

Manufacturer's responsibility. A manufacturer is liable if the claimant establishes by a preponderance of the evidence that the product is unreasonably dangerous in construction, in design, because of a failure to provide adequate warnings or instructions or because it did not conform to an express warranty.

Seller's responsibility. A product seller is liable if, by a preponderance of the evidence, the seller's own lack of reasonable care in handling the product

or the seller's own breach of an express product warranty was a proximate cause of claimant's harm. Thus, the seller is responsible only for his own fault. Where, however, the manufacturer cannot be [reached by a process server] or is determined to be judgment proof, the seller may be responsible for harms attributable to the manufacturer. This section will reduce litigation costs by taking the seller out of suits in which he is not responsible.

Misuse or alteration. If a product seller establishes by a preponderance of the evidence that misuse or alteration of a product caused the claimant's harm, damages shall be reduced or apportioned to the extent that the misuse or alteration was a cause of the harm. A product alteration will not lead to a



PHOTO: PETER BROWN BYZ-UNIPHOTO



PHOTO: BLACK & DECKER

Football gear and power tools are only two of many types of products whose makers are concerned about a torrent of litigation. Also concerned: retailers, wholesalers, distributors and insurers.

reduction in damages if [it was done] in accordance with [the seller's] instructions, [if it was] performed with the seller's consent or [if it was of a type where harm could easily be anticipated] and the seller failed to provide a warning against that alteration.

Sponsors of the bill say this section ensures that responsibility for harm is not placed on those who did not cause

the harm. And, they say, it gives incentives for preventing risks to those who can best prevent the risks.

After much internal debate, the Reagan administration has swung behind Kasten's bill, as has a 200-member coalition called the Product Liability Alliance. The coalition includes large and small retailers, manufacturers, insurers and insurance brokers, as well as business groups—including the U.S. Chamber of Commerce—that represent companies of all sizes.

The administration wavered for months because it was concerned that a federal product liability standard would conflict with the New Federalism drive to return some government programs to state control.

David P. Sloane, director of congressional relations for the National Association of Wholesaler-Distributors, a member of the alliance, says the administration decision recognized that "products move in a national marketplace."

The alliance emphasizes that a product liability law would not require creation of any federal program or office or involve expenditure of federal funds. Instead, a fact sheet states, "it would simply establish uniform rules applicable in product liability cases brought in state and federal courts."

SOME KNOTTY problems remain. The draft bill provides an absolute cutoff of 25 years to claims involving capital goods—the idea is to stop suits for injuries caused by worn-out or misused products. Capital goods manufacturers would like a shorter term; consumer groups want no cutoff. Rep. Henry A. Waxman (D-Calif.), whose Health and Environment Subcommittee has responsibilities paralleling those of Kasten's Senate subcommittee, also thinks a cutoff isn't needed. Ninety-eight percent of all bodily injury claims involving a product are filed within 10 years of its manufacture, he points out.

The 25-year limit doesn't cover latent injuries, the so-called toxic torts, in which an individual contends, for example, that exposure to a certain drug or product many years ago was responsible for cancer. Although the pending bill would not affect the situation Manville already faces, Congress may fashion a separate liability bill setting up an occupational disease fund for paying claims in such suits.

A major goal of the Product Liability Alliance is legal consistency and stability. Martin F. Connor, Washington corporate counsel for General Electric, says people who design, manufacture and market products "have a right and a need to know the standards by which society will hold them accountable—they have a right to know that those standards will remain in effect during the life of a product." Instead, Connor says, most standards are developed by courts, not legislators.

"It is a commonplace observation among those who must defend product liability cases that only after they have won or lost, do they find out what the law was for that case," Connor says. "This provides an exciting game for trial lawyers, but it is a nightmare for people who are trying to plan and run a business rationally."

TRIAL LAWYERS respond by saying a federal product liability law isn't necessary. The Association of Trial Lawyers of America has faith in the vitality of common law and the principle of leaving tort law to the states, says an ATLA spokesman. The association also contends that the Kasten bill favors manufacturers over consumers.

Robert H. Malott, chairman of FMC Corporation, hopes the emerging legislation will reverse what he considers an unfortunate trend toward requiring less proof of fault in court cases.

The trend has led to a surge in product liability claims. In 1975 fewer than 3,000 such claims were filed in federal courts. In 1981 there were more than 9,000. Thirty years ago, Malott says, a consumer injured while using a product could recover damages if it was proved that a manufacturer had been negligent. The court or jury had to determine whether a firm failed to act reasonably or prudently.

Now a company can be liable in some states if its design poses a hazard. Liability covers not only products used as intended but any uses that may be reasonably foreseen, even though the product was misused, Malott says.

Even innovation can be stifled, Malott insists. In a few states, he says, a claimant can use the fact that a manufacturer made improvements in a product to support a contention that an earlier model was not safely designed.

Francis P. Lucier, chairman of Black & Decker Manufacturing, which makes hand and power tools, says, "Certain judges in every state believe that a manufacturer ought to be the absolute guarantor of any loss incurred as a result of an accident or injuries that occur during the use of one of that manufacturer's products." □

—Michael Thoryn

Unlucky Proposition 13

The recent fate of California's famed tax-cutting law offers a pointed lesson to the rest of the nation.

THE overwhelming vote in favor of California's tax-cutting Proposition 13 in 1978 was a major harbinger of national conservative victories two years later.

Now, although the tax-revolt mood that Proposition 13 helped generate among the American electorate remains strong, the state law itself has run into difficulties. Court challenges brought by opponents of the measure have chipped away at its protections for taxpayers, and one recent decision has opened a major breach.

As a result, California business leaders are marshaling their forces to shore up the law, which was enacted after citizens got it on the ballot via California's initiative system. And the business leaders say there is a message in their situation for the tax-revolt movement nationally: Eternal vigilance is the price of continued liberty from overtaxation.

Shirley Chilton, president of the California Chamber of Commerce, describes tax increases resulting from challenges to Proposition 13 as "circumventing taxes."

She says of moves to weaken the law: "Other states must be alert for this type of end run. You have to be definitive in the first place and not provide opportunities for your opponents."

The California chamber is among business groups reviewing the current status of Proposition 13 with an eye toward corrective action through the legislature or, if necessary, a new initiative.

As adopted in 1978, the law rolled back real estate assessments to 1975-76 levels, limited real estate taxes to 1 percent of assessments and capped assessment increases at 2 percent a year.

It also specified that a two-thirds

vote of the legislature was needed to levy new state taxes and that special taxes could be imposed at the local level only if approved by two thirds of citizens voting in a local election.

Those provisions were designed to prevent lawmakers from imposing substantial new taxes to make up for lost real estate revenues. However, communities were allowed to raise the 1 percent assessment ceiling, if necessary, to

mittted to the electorate for two-thirds approval.

The San Francisco city council had voted to increase the city's business license tax 50 percent—from 1 to 1.5 percent of gross receipts—and to put the revenues in its general fund. The city argued that committing the money to the general fund removed the levy from the Proposition 13 restriction. By a 5-2 vote, the court agreed.

Fred Main, tax counsel for the California chamber, says the decision "shot a big hole in Proposition 13" because it enabled local governing bodies to do exactly what the law sought to avoid—impose new taxes to replace lost real estate revenues without the voters' approval.

Many of Proposition 13's original supporters, including Howard Jarvis and Paul Gann, who started it all with their sponsorship of the tax-limitation initiative, have joined the movement to restore the law's former strength. Several organizations are exploring strategies.

And the California chamber's Chilton says there may be other moves designed to limit the scope of government.

She reports growing interest in reducing the amount of time the California legislature spends in session. "A lot of people are opposed to the idea of full-time legislators," she says. "These people think that lawmakers would be more responsive if they went back home more often than they do."

She adds, "The fact is that the more government we have, the more of a burden it is on the taxpayer. Limiting the length of time the legislature sits could be a start toward checking the growth of government."

Does she think that putting limits on



California state chamber president Shirley Chilton and Edwin F. Meese III, presidential counselor, have long worked together seeking tax relief in their state. She warns that tax-cut plans require constant protection from inroads.

enable them to pay debts incurred before Proposition 13 was adopted.

That provision was generally interpreted as designed only to give communities sufficient income to retire bonds. But the California Supreme Court widened the loophole. It ruled that commitments of a public employees' retirement fund represent the type of prior debt that permits raising of real estate taxes above the 1 percent ceiling.

Then, in a more far-reaching decision, the same court dealt a heavy blow to the requirement that any proposal to raise special taxes locally has to be sub-

legislative activity in California might spark a revolt that would, like the Proposition 13 movement, reach the national level? "I hope that we would send out a message," she says.

Many state legislatures now have brief sessions, but the trend in larger states has been toward full-time operations with extensive support staff and services. The California interest in reversing the trend has not yet coalesced into a formal movement or ballot initiative.

Chilton, who is chairman of an investment and real estate firm, Clavis Corporation, and a full professor in the business school at Pepperdine University, has been an outspoken advocate of the free-market system.

That has brought her into frequent conflict with California Gov. Jerry Brown, now a lame-duck chief executive following his defeat last month in an election contest for the U.S. Senate.

STONG OPPOSITION by the California chamber and other business groups was an important factor in the overwhelming defeat on the same election day of a major ballot initiative that Brown's administration had conceived. The initiative called for imposing state controls on water resources. As chamber president, Chilton pressed the argument that the plan was a no-growth scheme that would do grave damage to California's agriculture and harm the economies of 18 of the state's 20 largest cities.

One provision in particular that aroused business groups was the shifting of control over water resources from local water-supply agencies to a centralized state agency with far-reaching powers. California chamber officials said it was the most significant economic issue on the state ballot this year, and its 2-1 defeat was a reaffirmation of the electorate's opposition to ever-growing government as manifested in the Proposition 13 landslide of 1978.

Chilton's active role in the dispute continued her long involvement in business-government issues. She has served in many state and local chamber posts, beginning with the presidency of the Palos Verde chamber in 1962.

She became a director of the state chamber in 1976, treasurer in 1979 and vice president in 1980. Last January, she became the first woman to head a state chamber of commerce.

Chilton has also been active in the Institute for Contemporary Government, a conservative research group that deals with issues at all levels. She sits on its board of directors, which also includes Edwin F. Meese III, a member of President Reagan's inner circle since the latter's days as governor of California. Meese is now counselor to the President. □

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I certify that the statements made by me above are correct and complete.

WILLIAM W. OWENS, business manager

PEOPLE IN BUSINESS

Dark Continent Idea Has a Bright Future

Ideas for small businesses are everywhere, including Africa's bush country. That's what Michael and Ann Moore of Ohio found out. They picked up a product idea from the Dark Continent and turned it into a bright future in the United States.

Their product is the Snugli, a pouch-like canvas bag that fits over the shoulders and in which an infant can be carried, either on the chest or on the back.

The Moores were in the Peace Corps in Africa in 1964. A few months after returning to America, Ann Moore had a baby and chose to carry it home from the hospital in a shawl strapped to her back, much as she had seen African women carry babies.

But her roughly fashioned carrier kept slipping, so she and her mother, Lucy Aukerman, cut up an old sheet and sewed it into a more stable pouch, this time with a seat inside.

To Ann Moore, her baby seemed unusually calm and content when carried in the pouch at her breast. The

pouch carrier also freed both her hands. Friends asked Ann Moore where they could buy a Snugli. She took their orders, and her mother, in West Alexandria, Ohio, sewed up a few.

By 1966, after the Moores had moved to Colorado, Lucy Aukerman was getting more orders from her daughter and son-in-law than she could sew. So she enlisted the help of her neighbors.

Thanks to several favorable reviews in magazines, Snuglis were selling by the hundreds by 1972. "We had a bona fide business that was so totally out of control," says Moore, "that we had to pay it more attention." So the Moores incorporated.

And just in time. *Consumer Reports* magazine in 1975 gave the Snugli its top rating in soft carriers and orders flooded in.



The next year, after Moore recruited a national force of sales representatives, Snugli, Inc., moved into its own factory in Lakewood, a Denver suburb.

In Ohio the seamstresses continued to make individual Snuglis from corduroy or seersucker; in Colorado the factory manufactured denim Snuglis.

Today 150 women around West Alexandria sew Snuglis, supervised by Ann Moore's father, who operates the corporation's Ohio branch from a converted chicken house on the family farm.

The individually made Snuglis, shipped to Colorado by van each week, retail for \$55 to \$60. The factory-mades are less expensive—\$30 to \$35—but are not lined as the Ohio Snuglis are. Nevertheless, factory-mades outsell the original designs about 2 to 1.

Michael Moore, 44, and Ann, 48, have kept Snugli a close family business, selling stock to only a few nonrelatives. Besides the 150 Ohio seamstresses, who are paid by the piece, Snugli employs 60 in its Lakewood factory, has 25 sales representatives around the country plus 10 distributors in Europe and Japan and has a licensed manufacturer in Canada.

Something New: Car Buyer for Hire

Most people buy a new car every few years, but Al Jacobs buys hundreds every year.

He is president and owner of Automotive-Search in Bethesda, Md., a suburb of the nation's capital. And he does what the name of his two-year-old firm implies—he finds for clients new cars that meet their needs within their price range.

Many of his customers are busy professional people who have neither the time nor the inclination to do extensive comparison shopping for cars.

Jacobs reports that most dealers are willing to work with him: "It's all plus business for them."

He begins his search with an interview to determine exactly what the prospective buyer is looking for in a car and at what price. Jacobs then turns to his own computerized files, which list details on more than 400 car makes and models, American and foreign.

If the car selected meets Jacobs' approval on a test drive, he arranges a similar test for the client, then negotiates a sales price with the dealer.

He also arranges the sale of the cli-



When Michael and Ann Moore returned to the United States after a stint with the Peace Corps in Africa, they went into business with a product idea borrowed from African mothers: the Snugli (inset), for carrying children.

PHOTO: AUTOMOTIVE SEARCH



Al Jacobs has the answer for people who don't like to spend time and effort shopping for a new car: He'll do it for them.

ent's old car and closes each transaction with a bottle of champagne.

Jacobs, who employs a secretary and a researcher, now handles 40 car purchases a month at a fee of \$175 each.

His clients also include many single women and individuals with special needs. Among the latter might be a handicapped person seeking a vehicle that offers ease of entry and exit or someone looking for a low-slung hatchback to accommodate an aged dog whose jumping ability has diminished over the years.

Jacobs says his service can benefit clients after the original sale is closed. Resale value is one of the criteria he uses in selecting a car for a customer, he says, and he will follow up a purchase, helping a customer with procedures needed to iron out new-car bugs, if any.

"I eat, sleep and drink cars," he says. "I read everything available on cars, and I test drive cars almost every weekend."

For some people, buying a car can be a tedious, if not perplexing, job. But Al Jacobs takes pleasure—and profit—from knowing where and when to kick a tire.

Thriving Business Is Built on Trust

One of every five people will steal a candy bar if there is nobody around to collect the money. You might view that as disgusting, but William Cigan looks at it differently. He has built a multi-million-dollar business on the fact that four of the five people will leave the money for the candy.

Honor Shoppe, it is appropriately called. And its business approach is as simple as Cigan's trust in people.

The firm has an Honor Shoppe cardboard tray filled with about 30 different snacks—candy bars, chips, raisins, cookies—costing 30 cents each. The tray is placed in a small office or place of business, and the employees help themselves, dropping their money in an unlocked coin box built into the tray.

Cigan, 55, made up his first tray and put it out in Eau Claire, Wis., his business base, in 1978. Today he has more than 20,000 Honor

Shoppe trays in 10 states, mainly in the Midwest and the West. He also has opened a branch office in Louisville.

Of course, Honor Shoppe no longer is a one-man enterprise. Cigan's seven employees in Eau Claire and nine in Louisville direct 21 franchisees. This year's gross sales will hit \$3 million, he says.

Franchises aren't cheap. They run well into the five figures. But Cigan and his staff make sure the franchisee is fully set up for business.

The home office lays out the territory, solicits and signs up offices where the trays will go, negotiates with manufacturers and distributors of quality

snacks to get the franchisee the best price for the trays' contents, even sells the franchisee a custom-fitted delivery truck. The home office takes a royalty of 4 to 5½ percent on sales of each franchise.

In Cigan's opinion, if people "are approached positively, they will rise to the challenge." And the challenge posed by Honor Shoppe is honesty.

"The theft rate is 20 percent," he says, "and we hope to get it down further."

He has devised ingenious ways of prodding a customer's conscience. Trays carry a sketch of a young, smiling angel with the message "Thank you for being honest."

If the previous week's coin box is short, the sign is changed to "Oops! You were a little short this week."

The unlocked coin boxes, from which people can make change, often contain IOUs and repentant notes with coins or bills attached, and sometimes such notes as "If you are 30 cents short, please see Debby at the insurance office.... I can't remember whether I paid or not."

Cigan says 2 to 3 percent of the locations prove unprofitable because of the continuing theft rate, and the trays must be removed. But each franchisee has a minimum of 100 trays out, sometimes several hundred.

And sometimes even the "incorrigibles" can be turned around. For instance, one coin box note read: "Dear Honor Shoppe: We found the person who was stealing. Please bring back your tray. We love it."

Cigan, one of the stellar members of Eau Claire's Optimist Club, saw to it that the tray was brought back. □

William Cigan's offering of snack trays on the honor system has developed into a nationwide statement that most workers and customers can be trusted.



PHOTO: SPENCE STONE

Tight-Fisted Public

Saving is up, but so far capital investment isn't.
Consumer spending is the key.

AMERICANS ARE SAVING more now, but the economy seems to be enjoying it less. Savings, as a percentage of disposable personal income, rebounded from a low 5.8 percent for 1980 to 6.9 percent in this year's third quarter. "If you translate that into dollar terms, you are talking about more than \$25 billion added to the private savings pool," says Manuel H. Johnson, Treasury assistant secretary for economic policy.

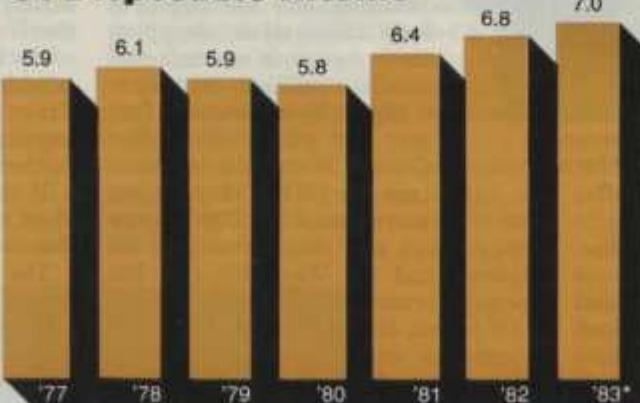
So far, however, the higher saving rate has not translated into increased capital investment, as the Reagan administration's supply-side economists had hoped. Nonresidential fixed business investment was running at an annual rate of \$161 billion (in 1972 dollars) in the third quarter, well down from the prerecession peak of \$174.2 billion in the fourth quarter of 1981.

The problem is that consumers aren't buying. "The rise of less than 1.5 percent in the rate of real consumer spending in the third quarter was a major disappointment," observes economic consultant Morris Cohen.

With sales off and existing facilities producing far below capacity—the capacity utilization rate was 69.1 percent in September—most industries have no incentive to add plant and equipment.

What is wrong? Johnson blames the recession. "We had not forecast a deep recession initially," he says, "and the main reason was that we had hoped our fiscal policy would head it off." Those early assumptions, Johnson explains, included a 10 percent tax cut starting July 1, 1981. The stimulus of the tax cut was supposed to offset the contractive effects of the Federal Reserve Board's tight money policy, he says. But instead of a 10 percent cut in July, 1981, there was a 5 percent cut the following October. Worse, the Fed slammed the brakes on the money supply much faster and more drastically than the administration expected or wanted.

Personal Savings as a Percentage Of Disposable Income



*Estimated
Source: Economic Policy Center, U.S. Chamber of Commerce

Even the first full 10 percent installment of the personal tax cut, effective last July, has failed to spark increased consumption. Economists offer several possible explanations. One is that consumer caution is normal in a recession. "Typically, in every recession, the saving rate goes up along with the unemployment rate and stays high for the rest of that recession," says Jean McIntosh, an assistant economist at Fidelity Bank, of Philadelphia. The bank's research shows that the saving rate rose an average of one percentage point in the last four recessions.

Also, there are reasons to discount the tax cut's impact. "The cut was pretty much offset by bracket creep," says Treasury's Johnson, but he adds that "it is becoming more and more real as inflation comes down."

Allen Sinai, senior vice president of Data Resources, says, "In retrospect, the minimal impact of the tax cuts on consumer spending in July and August should have been no surprise. Contemporary theories of consumer behavior almost universally suggest that spending will lag several months behind changes in real disposable income." In addition, he points out, "the tax cuts were really quite small and not fully reflected in withholding schedules."

Ironically, the good news on inflation may contribute to the bad news on consumer spending. When inflation was high and interest rates low, living on credit made sense. Then inflation went down and interest rates went up. That increased the incentive to save and reduced the incentive to speculate on the appreciation of highly leveraged assets like houses. Now that interest rates are falling, there is an incentive to postpone major credit purchases until the rates hit bottom.

Thus, the depressed state of the economy and the new tax incentives for saving have combined to produce tight-fisted consumers, slow to assume the role of

leading the way out of the recession. Indeed, many experts foresee at least one more upward blip in the saving rate—triggered by the deadline next April 15 for setting up a 1982 Individual Retirement Account—before consumer spending begins to return to normal. (By midyear, nearly \$20 billion had been salted away in IRAs and Keogh plans.)

HAVE THE SAVINGS incentives been overdone? "I don't think the present level of savings is damaging," says Johnson. "First, the deficit is requiring a lot of federal borrowing, and the increased savings help finance it. Second, the ability is there for consumption, along with increased saving. Real disposable income has gone up. It's not that we're saving a larger proportion of a smaller income. We're saving a larger proportion of a larger real disposable income."

An upturn in capital investment is widely expected to lag behind resurgent consumer demand by six months or so.

Reagan administration economists believe data will show "a strong consumption recovery starting in the fourth quarter of 1982 and carrying into the first quarter of 1983," Johnson says. □

BUSINESS LIFE-STYLE

REACHING FOR THE STARS

By John Costello



From his domed observatory atop a hill, San Francisco businessman James Scala peers into a sky filled with stars—and awesome mystery.

WE HAVE SEEN His star and have come to worship Him," the Three Wise Men said when they arrived in Bethlehem. What Balthasar, Caspar and Melchior saw could have been the brightness of Jupiter and Saturn, shining side by side in the heavens, as the two planets did in the year 7 B.C.

If so, credit that most fa-

mous of all astronomical observations to three amateur sky-gazers.

These days, professional astronomers manipulate powerful telescopes with 100-inch mirrors to peer millions of light years into intergalactic space. But amateurs continue to play a role in sky-watching.

Take James Scala, vice

PHOTO: GEORGE OLSEN

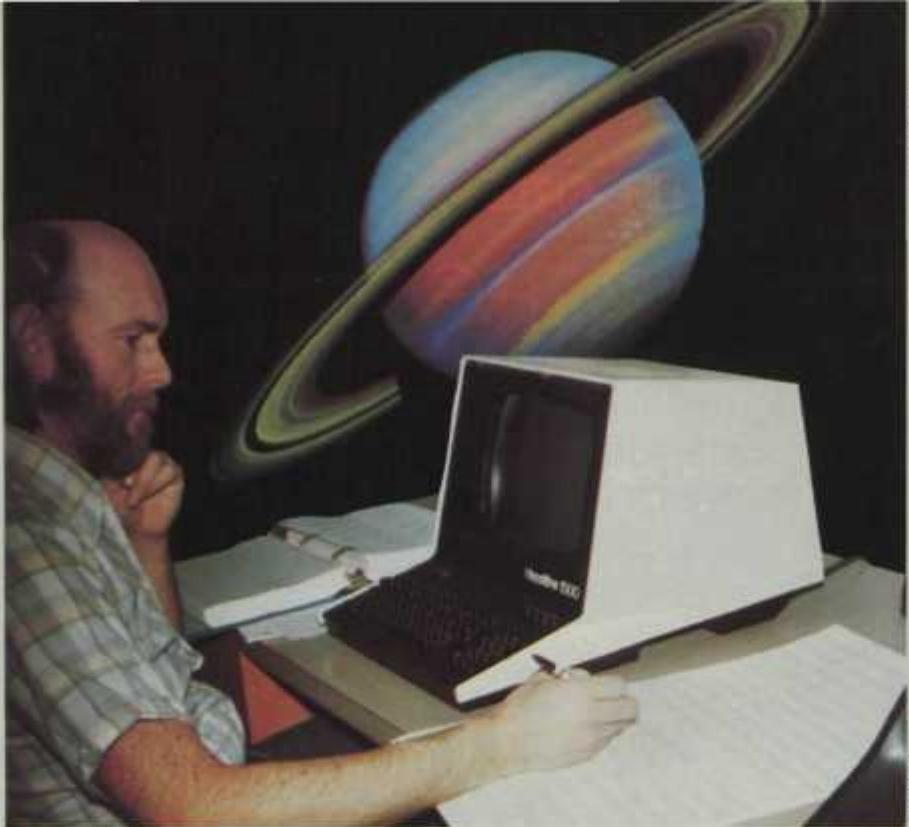


PHOTO: LANCE ROSE
When he sits down by his telescope, he doesn't stroll aimlessly down the Milky Way, pausing to view whatever catches his eye.

"I especially like to observe other planets in our solar system," he says, "and like other astronomers, when I note something of interest, I pass it along to the Association of Lunar and Planetary Observers."

He is intrigued by the possibility of other intelligent life in the universe.

"I think we may be on the brink of finding out whether there is any," he says. "Some stars rotate slowly, like our sun. That may indicate that planets revolve around them. And some seem to wobble, like Barnard's star in our galaxy. That's another possible piece of evidence that the star is ringed with planets of its own."

"Personally, I don't believe intelligent life is abundant in our galaxy. And if that's true, it makes you take life more seriously. We have a very important planet here. Think about the delicate balance Earth enjoys. Move Earth a little closer to the sun, and it would be like Venus—a hothouse incapable of supporting life. Move it a little farther away, and our oceans would freeze."

"If we are alone, that's awesome. If we aren't, it's equally awesome."

HOW MANY amateur astronomers like Scala are there? About 400,000 in the United States and Canada, the Astronomical League says. Some 185,000 are red-hot hobbyists who go out often to scan the skies at night.

Amateur astronomers have a big investment in telescopes, the league estimates—about \$85 million. And, it says, they buy about 40,000 annually.

To get started, you would have to spend from \$700 to \$1,200 for an 8-inch telescope, a popular size for amateur astronomers.

Domes come higher. Scala's 2.5-meter model, bought from Observa-Dome Laboratories, of Jackson, Miss., comes to \$6,345 plus freight. The company sells 75 to 100 domes a year to amateur astronomers. The 2-meter economy size is \$2,415 plus freight and crating. The king-size 5-meter model has a \$14,619 price tag, plus freight and accessories.

Astronomy clubs in the United States and Canada number about 400, the league estimates. Most are affiliated with larger organizations like the league, the Association of Lunar and Planetary Observers, the Astronomical Society of the Pacific, the American Meteor Society or the American Association of Variable Star Observers.

Carolyn Hurless is a former vice president of AAVSO. To astronomers like her, the old nursery rhyme—"Twinkle, twinkle, little star, how I wonder what you are"—has little relevance. Today's astronomers know a lot

Lance Rose uses a computer instead of a telescope to probe the heavens. When NASA wanted to photograph one of Saturn's moons, it used Rose's calculations of the moon's orbit to put the camera in the right place.

president for science and technology of Shaklee Corporation, San Francisco. Our universe fascinates him. Not so much for its immense age and vast distances as for its beauty.

"Just look some night at the rings of Saturn," Scala says in a tone of awe. "They're gorgeous." For him, it's easy to do that. He has, in his backyard, an 8-foot rotating domed observatory that looks like an aluminum igloo.

"In the top of it," he explains, "is a slit that you open up to look at the sky. It's just like Mount Palomar, or any

other observatory, except that it's a lot smaller. In it, I have a 10-inch folded refractory telescope that magnifies up to 1,000 times."

Scala's home is about 30 miles east of San Francisco in Lafayette, Calif.

"We're behind a little mountain range that holds back the fog, so we have clear skies here. My observatory is on a little hill, about 500 feet high, just behind the house. It has an absolutely superb view of all the horizon."

Scala, 48, has been hooked on astronomy as long as he can remember. "I grew up in northern New Jersey," he says, "in a town called Ramsey. When I was a little kid, I would go out in the yard and stare up at the stars. My father told me how to pick out a few constellations, and my interest developed from that."



PHOTO: CAROLYN HURLESS
Carolyn Hurless, an Ohio businesswoman, finds "a serenity that's almost indescribable" as she scans the night sky for variable stars.

about what stars are: white dwarfs, red giants, double stars, X-ray stars or run-of-the-mill stars like the sun.

What's more, they know that stars don't twinkle at all. Sometimes the stars' fires are invisibly banked, sometimes they burn brightly and occasionally they explode in a dazzling display of celestial fireworks. But twinkle? That deceptive sparkle comes from viewing them through the air that embraces Earth.

Hurless put her first telescope together, grinding her own 8-inch mirror, when she was 19 years old. "I started looking at the planets," she says, "but there wasn't much going on. And except for its changing phases, the same

mysteriously, they surface suddenly years later, lit up like a Christmas tree."

This was more like it. Hurless, with coaching from Peltier, became an expert variable-star observer.

Now, a couple of nights a week, she heads for her homemade backyard observatory—it was once a home for poultry—to watch the skies. Like other members, she regularly reports what she sees to the American Association of Variable Star Observers. Since observers from all over the world do so, AAVSO has a wealth of data on variable stars. Professional astronomers often tap its data bank.

What does she get out of this star-gazing?

Phoebe is a needle in the haystack of space. It is not easy to find, even when you are in its neighborhood, as Voyager II was last year. For one thing, this moon of Saturn is tiny—its diameter is about 300 miles. Our moon's diameter is about 2,160 miles.

Phoebe is more than 8 million miles from Saturn and loops around it clockwise, unlike most of Saturn's moons. Furthermore, its orbit is lopsided, so Phoebe travels less around Saturn's middle than most of the 15 moons do.

WHEN Voyager II traveled to Saturn last year, the National Aeronautics and Space Administration wanted some photographs of this odd little sphere of rock and ice. The problem: To photograph Phoebe, you must find it.

NASA could have number-crunching reams of data with its computers and found the answer. But someone at the Jet Propulsion Laboratory in California thought of a shortcut. Wasn't there, he wondered, a paper published on Phoebe's orbit in the *Astronomical Journal*? Indeed there was—by Lance E. Rose in the July, 1979, issue, pegging Phoebe's travels down to the 16th decimal place.

Was it a proud moment?

"Yes," says Rose, proprietor with his wife of Mosher-Rose Associates, a computer service firm based in Somers, Mont. "I had been interested in celestial mechanics since I was a kid growing up in Dayton, Ohio, and I did the computations on Phoebe with a home computer I built from a kit I bought in 1977."

What does he get out of his hobby, which requires hundreds of hours of work mapping the paths of celestial travelers?

"It offers a good outlet for my interest in math and analysis, as well as astronomy," he says, "but above all, it demonstrates that amateurs or hobbyists may still have important contributions to make to the sciences."

For others the strongest lure will remain not the chance to contribute to knowledge but the mystery of the universe's vast reaches—and their drama as well. Soon the heavens will offer one of their greatest shows: the return of Halley's comet. The huge comet, which swings past the earth every 76 years, will be back in 1985 and 1986, visible to the unaided eye. It has already been sighted by telescope.

Over the years, the comet has often been regarded by the superstitious as an evil omen. This time, its reappearance may be a sign of good times for telescope manufacturers.

As Mark Coco, who is in charge of consumer relations for Celestron International, of Torrance, Calif., notes: "Back in 1910, when Halley's comet last appeared, most people couldn't afford a telescope. Now they can." □

PHOTO: CELESTRON INTERNATIONAL



Some amateur astronomers begin with small telescopes like this 3.55-inch model, which costs a few hundred dollars and comes in three forms—a hand-held spotting scope, a mounted telescope and a telephoto lens.

was true of the moon. This wasn't mentally stimulating."

Later all that changed. In the autumn of 1958, her Lima (Ohio) Astronomy Club visited the observatory of Leslie C. Peltier in nearby Delphos. To most Americans, Peltier is not a household name. However, he is one in the world of sky-watchers—professional as well as amateur. This small-town, self-taught astronomer was world-famous, discoverer of two novae and a dozen comets before his death in 1980.

At the time of the club's field trip, he had a little 6-inch refractor on loan from Princeton University. "He was looking at variable stars," Hurless says. "I said it seemed to me that this would be more challenging than anything else. 'I've thought so,' he replied, 'for about 50 years.'"

Looking at variables is star-gazing with pizzazz. Some of these mavericks blink off and on like traffic lights. Others glow dimly like a worn-out firefly, then blaze up. And, of course, you have the Rip van Winkles. Disappearing

"I contribute something," says Hurless, proprietor with husband Don of Hurless Music Studios in Lima. "I'm furthering our knowledge of the universe. Besides that, I have a wonderful time. I bring out a cassette player and some tapes of classical music or tune in to a local FM station that plays classics.

"There you are, under the stars, everything quiet, except some lovely sounds. There's a serenity that's almost indescribable. It's as if there were no cares—as if absolutely nothing were wrong with the world."

Carolyn Hurless and Jim Scala do what we expect of astronomers. They go out at night, point a telescope at the sky and gaze at the glitter. Not Lance Rose. His hobby is astronomy, too, but that branch known as celestial mechanics. For that, you don't need a telescope—he no longer owns one. You need what he has—a computer.

Thanks to Rose, 38, America's Voyager II snapped some dandy close-ups—relatively speaking—of Phoebe, the outermost moon of Saturn.

What the Election Didn't Change

THREE months will be marked by transition on Capitol Hill. The 97th Congress will end its term at a postelection session. The 98th Congress will convene in January.

Unofficially, this period will also mark a shift from the congressional politics that dominated events of the past year to presidential politics geared to the 1984 election.

(A report on how the new Congress is expected to deal with business issues begins on page 24. A separate report on the outlook for tax policy legislation begins on page 20.)

Democratic optimism for 1984 has been fired by party gains in last month's congressional elections, gains that will have a strong impact on party policies in Congress over the next two years.

Republican leaders view the election results as a signal that fell far short of a mandate for basic change in economic policies, but did suggest strong sentiment for some modifications.

The rethinking of political strategy and tactics is a proper procedure in the wake of an election. Responsiveness to the public's will as manifested in the voting booth is, after all,

what our system is about. But leaders of both parties must realize that certain factors did not change.

The critical problems in financing the Social Security system still can be resolved only through higher taxes or stiff curbs on the growth of benefits. Looming deficits in the range of \$150 billion to \$200 billion still cannot be tolerated by a fragile economy whose recovery prospects are uncertain.

Spending tens of billions on federal job programs that could benefit only a small number of jobless still would threaten a resurgence of job-destroying inflation.

Those are but a few of the considerations the new Congress must face. It is temptingly easy in political campaigns to suggest that difficult national problems can be solved in ways that will please all sectors of the electorate. And the lure of presidential politics will be strong over the next two years.

But members of the new Congress must realize that they were not elected to build a record for the next presidential election, but to make difficult decisions in the interest of all the people. □

Learning the Hard Way

MEMBERS of Congress had such a backlog of unfinished business when they adjourned in October for the political campaigns that they had to come back to Washington after the election.

The chief business on the agenda of the special session beginning November 29 is fiscal. Although the current budget year began October 1, Congress has passed only three of 13 appropriations bills necessary to keep the government functioning. Operations have continued under stopgap authority enacted to give the members time to straighten out the regular appropriations system.

Members would like to wind up by December 17, which means they would have 15 working days. They probably will deal with as many spending bills as they can, enact further stopgap authority in place of the rest and hand over most other unfinished business to the new Congress.

But perhaps some good will come from a session that keeps members at work almost into Christmas week. Congress must sooner or later face up to its continuing deadline-missing.

Keeping Congress after school, as it were, might increase pressure for a better performance during regular hours. □



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